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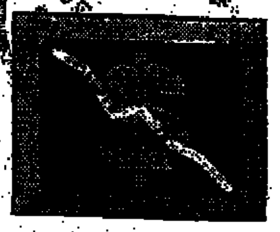

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FINANCIAL TIMES

Tuesday June 16 1992 | EUROPE'S BUSINESS NEWSPAPER | D8523A

Kidnappers free Lebanon's last two hostages

Lebanon's last two western hostages, German aid workers Heinrich Struebig and Thomas Kemptner, were freed after 1,127 days in captivity.

The two men were handed over to Lebanese security officials by their militant Moslem kidnappers. Their release ends the decade-long Lebanon hostage saga. Page 6

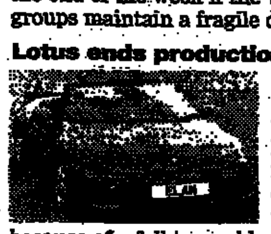
Tactical N-weapons scrapped: Britain's Royal Navy will scrap all tactical nuclear weapons, defence secretary Malcolm Rifkind said. However, its Polaris and future Trident submarines will continue to carry strategic weapons. Page 10

Five die in gun attack: Gunmen shot and killed five black commuters near Johannesburg on the eve of an African National Congress campaign of mass action for political change. Page 6

Troops bill approved: Japan gave final approval to a controversial bill allowing the government to dispatch troops overseas for the first time since the second world war to help UN peace-keeping efforts. Page 20

UN set to take control of airport: UN troops could take control of Sarajevo airport by the end of the week if the warring rival militia groups maintain a fragile ceasefire. Page 20

Lotus ends production of Elan



Britain's Lotus Group, the luxury sports car-maker owned by General Motors, announced it was halting production of its Elan model with the loss of 300 jobs because of a fall in world sales. The jobs will go at the company's Norfolk plant. Page 20

Kinnock withdraws: Neil Kinnock, UK opposition leader, withdrew his nomination for presidency of the Confederation of Socialist Parties of the European Communities because his Labour party might oppose the Tory version of the Maastricht treaty. Page 10

British Telecommunications will suffer a loss of at least C$256m ($143m) from the long-awaited sale of its controlling stake in Mitel, the troubled Canadian telephone equipment maker. Page 21; Lex, Page 20

Continental, the German tyre company, demanded Pirelli, its Italian rival, repay the dividend received last year on its shares in the German company. Page 21

McDonnell Douglas, the financially-stretched US aerospace group, appears to have abandoned hope of launching its MD-12 jumbo jet in 1992 because of a lack of orders. Page 25

Foster's Brewing Group rejected an A$6.2bn ($4.5bn) merger with diversified group SA Brewing Holdings, saying it did not fit its plan to become a single-purpose brewer. Page 23

Foreign banks now control nearly half the commercial and industrial loan market in the US, much more than previously believed, according to the Federal Reserve Bank of New York. Page 21

Brittan warning: Banks must cut their fees for transferring money between EC states by the year-end or risk the Community passing laws to make them improve services, European Commissioner Sir Leon Brittan said. Page 3

S&L lawsuit: The US government has filed a $1.5bn lawsuit charging the officers and associates of the failed Western Savings and Loan in Arizona with civil fraud and racketeering. Page 5

CD dumping probe: European Commission is to investigate several Japanese electronics manufacturers over allegations that they have been dumping compact disc players in European markets. Page 8

County NatWest, the ill-fated investment banking arm of National Westminster, the UK bank, is to be broken up and submerged in the NatWest group. Page 21; Lex, Page 20

H. J. Heinz, the US food group, suffered a 6.6 per cent decline in fourth-quarter net income to $145.7m because of restructuring charges of more than $50m. Page 24

Wimbledon ticket probe: Britain's Office of Fair Trading is investigating a complaint to the European Commission that the All England Lawn Tennis Club forces up the prices of tickets for the Wimbledon finals. Page 10

Win for Germany: Germany beat Scotland 2-0 in their group two match, boosting their hopes of a semi-final place in the European football championship. Netherlands and the CIS drew 0-0.

■ STOCK MARKET INDICES		
FT-SE 100:	2,593.5	(−10.1)
Yield	4.71	
FT-SE Eurotrack 100	1,159.75	(−7.73)
FT-A All-Share	1,254.26	(−0.5%)
FT-A World Index	140.42	(−0.5%)
Nikkei	16,953.23	(−430.45)
New York:		
Dow Jones Ind Ave	3,354.8	(+0.54)
S&P Composite	410.29	(+0.53)
■ US CLOSING RATES		
Federal Funds:	3 7/8%	(3 3/4%)
3-mo Treas Bills: Yld	3.783%	(3.735%)
Long Bond	101 21/32	(101 18/32)
Yield	7.848%	(7.854%)
■ LONDON MONEY		
3-mo Interbank	10 1/16%	(10 1/16%)
Liffe long gilt future:	Sep 97 13/32	(Sep 98 1/16)
■ NORTH SEA OIL (Argus)		
Brent 15-day Aug	$21.10	(20.925)
■ Gold		
New York Comex June	$343.10	(342.9)
London	$343	(339.85)

■ STERLING		
New York:		
$1.8568	1.854	(1.8515)
London:		
$	1.8585	(1.852)
DM	2.9175	(2.92)
FFr	9.825	(9.84)
SFr	2.625	(2.64)
Y	235.25	(234.5)
£ Index	92.9	(92.8)
■ DOLLAR		
New York:		
DM	1.5708	(1.577)
FFr	5.289	(5.2095)
SFr	1.415	(1.427)
Y	126.83	(126.7)
London:		
DM	1.5715	(1.577)
FFr	5.2925	(5.3125)
SFr	1.4145	(1.426)
Y	126.75	(126.65)
$ Index	62.2	(62.3)
Tokyo close Y 126.72		

Austria	Sch30	Hungary	Ft182	Malta	Lm0.50	S.Arabia	SR9.00
Bahrain	Din1,000	Iceland	IKr180	Morocco	MDh11	Singapore	S$4.10
Belgium	BFr60	India	Rs20	Neth	Fl 3.50	Spain	Pta200
Cyprus	C£1.00	Indonesia	Rp3900	Nigeria	Naira20	Sweden	SKr14
Czech	Kcs35	Israel	Shk5.50	Norway	NKr15.00	Switz	SFr3.00
Denmark	DKr14	Italy	L2500	Oman	OR1.20	Thailand	Bht50
Egypt	E£4.00	Jordan	JD1.20	Pakistan	Rs35	Tunisia	Din1,000
Finland	FM10	Korea	Won 2500	Philippines	Pso45	Turkey	L8000
France	FFr8.50	Kuwait	Fils.600	Poland	Zl 18,000	UAE	Dh9.00
Germany	DM3.30	Lebanon	US$1.25	Portugal	Es190		
Greece	Dr250	Lux	LFr60	Qatar	QR10.00		

Increase in Community revenue could be spread over longer period

EC budget breakthrough likely

By David Buchan in Luxembourg

THERE WERE signs yesterday that the deadlock over the Community budget could be broken as most EC governments appeared ready to accept a compromise which would spread revenue increases over a longer period than envisaged by Mr Jacques Delors, the Commission president.

Mr Delors' original plan – unveiled in February and criticised by some for demanding too much at a time of fiscal restraint – was to raise Community revenue progressively from next year from its current ceiling of 1.2 per cent of Community gross national product to 1.37 per cent by 1997.

"I am not changing the Commission proposal," Mr Delors said. But he told foreign ministers at their meeting in Luxembourg that, for the next two years at least, his plan to raise spending by one-third over the period up to 1997 could be accommodated within the current 1.2 per cent ceiling because forecast expenditure is below the ceiling.

Mr Douglas Hurd, the UK foreign minister, forecast that next week's Lisbon summit would not produce "conclusions, but rather guidelines" which would allow Britain, assuming the EC presidency on July 1, to get a budgetary deal by the end of the year.

Ministers from France and Belgium among others seized on Mr Delors' new apparent flexibility as a good compromise.

They argued it could satisfy those like the UK, the Netherlands and Germany, which want to avoid paying more into Community coffers at a time of fiscal constraint at home.

They felt it could also placate members such as Spain and Ireland which want more aid from Brussels. The question of financial support from Brussels is expected to play a part in the referendum vote in Ireland on Thursday.

Mr David Andrews, Ireland's foreign minister, said his partners had all shown themselves aware of Ireland's delicate position on the eve of its referendum on the political and monetary union treaty.

His French conterpart, Mr Roland Dumas, said Ireland could expect "a significant contribution" from the new special cohesion fund.

However, Spain and the UK, at opposite ends of the spectrum, yesterday maintained their tough positions, with Madrid warning against watering down the original Delors plan.

The Portuguese presidency has suggested rejigging the original budget plan on the spending side. It would pay for a doubling of cohesion aid to the EC's four poorest members by trimming the rate of increased spending elsewhere.

● The most concrete decision likely to come out of the Lisbon summit later this month will be the re-nomination of Mr Delors to a further two-year term as Commission president.

Only Britain appears still to be reserving its position on Mr Delors. Mr Hurd said yesterday that "no assurances have been given, nor decisions taken".

In London, Mr John Major made clear that he saw little option but to accept the re-appointment for two years of Mr Delors – a move likely to infuriate the party's Euro-sceptics.

Mr Major meanwhile began to reassert his authority over the Conservative party by warning potential rebels against the Maastricht Treaty that Britain's influence would be undermined if it sought to wreck the accord.

The prime minister said he was dismayed by the divisions which have opened in the party since the Danish rejection of the Maastricht accord. Yesterday, however, he confirmed that legislation to ratify the accords on political and economic union will be delayed until Denmark has made its position much clearer.

Opposition seeks full inquiry on Maxwell revelations

By Alison Smith, Philip Stephens and Jimmy Burns in London

BRITAIN'S opposition Labour party yesterday demanded a full inquiry into what the government knew of Mr Robert Maxwell's activities prior to the collapse of his business empire.

Mr Gordon Brown, Labour's trade and industry spokesman, wrote to Mr John Major, the prime minister, urging him to set up an inquiry after the Financial Times reported yesterday that the UK government had intelligence information at least two years before the death of Mr Maxwell that suggested he had been acting dishonestly.

Government officials said yesterday there was no evidence to suggest that any government ministers had seen telephone or other intercepts which might have alerted them to fraud in the Maxwell empire. Mr Major was certain that he had seen nothing either as chancellor of the exchequer or prime minister.

Mr Brown called for a statement on "who was informed, when and in what detail, and – specifically – why no action was taken to investigate fraud".

Conservative MPs including Mr Rupert Allason, the author of books on espionage, were ready to accept that Mr Maxwell had been the subject of intelligence reports, but expressed scepticism that these would have gone into his financial activities.

Mr Richard Page, Conservative co-chairman of the all-party group of MPs campaigning on behalf of the Maxwell pensioners, said: "If it turns out the government knew that Maxwell was bleeding money out of the pension funds, then the pressure on the government to provide for the pensioners becomes almost irresistible", he added.

The FT yesterday quoted Mr Robin Robison, who in June 1988 became an administrative officer for the Joint Intelligence Committee, part of the Cabinet Office which assesses information from Britain's intelligence services.

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Yeltsin appoints reformer Gaidar prime minister

By John Lloyd in Moscow

MR YEGOR GAIDAR, who has led the reform process in Russia for the past six months, was named prime minister yesterday in a surprise move underlining President Boris Yeltsin's continued support for radical economic reform.

The announcement, made shortly before Mr Yeltsin left for the US for talks on arms reductions and economic aid, demonstrates the Russian president's overriding concern to reassure foreign governments and international financial institutions about the pace of economic reform.

Mr Gaidar has established credibility with the International Monetary Fund and with the main foreign governments as a consistent proponent of reform. Yesterday's announcement buttresses his position.

Government sources in Moscow, many of whom were unaware of Mr Gaidar's appointment, said it had not been discussed at the cabinet meeting on Thursday.

Mr Yevgeny Yasin, the government's plenipotentiary to the Russian parliament, said: "It's obvious that this appointment was considered to be a higher priority, because of its international implications, than the concerns of industry about the reform programme and the government's management of the economy."

Mr Yeltsin had only last week said that a new prime minister would not be appointed for some months and that he would continue to head the government as well as fulfil the duties of the presidency. The appointment still has to be approved by the Russian parliament.

Opinions in the parliament are divided. Mr Yasin said it would be "hard to get" a majority for Mr Gaidar, while Mr Sergei Filativ, the parliament's deputy chairman, welcomed the move.

In any event, it is unlikely to be settled before parliament breaks for summer at the beginning of July. This would give Mr Gaidar more than two months in which to establish his authority.

Mr Gennady Shipitko, a presidential spokesman, said that the post was a "permanent one" and signified Mr Yeltsin's "trust in the course of reforms carried out by the Gaidar team". He said that most economists and financiers linked the success of reforms to the name of Gaidar.

The appointment two weeks ago of Mr Vladimir Shumeiko, a former plant manager and deputy leader of the Russian parliament, as co-equal first deputy prime minister with Mr Gaidar had caused some concern. Fears had been raised that Mr Gaidar would be inhibited in carrying through reforms, the future of which would hang in the balance.

The decree naming Mr Gaidar prime minister was accompanied by others which also demonstrate a concern to prove that the government has not lost its radical edge.

Chief among these is a decree ordering state enterprises to pay their debts to the state or to each other within three months, or be declared bankrupt and sold off.

At the same time, companies which go private – as well as new companies – will be able to buy the land on which they stand. Agricultural land is excluded from the decree.

Russian president Boris Yeltsin leaves for the US after naming Yegor Gaidar prime minister

Unholy alliance, Page 2
Mr Yeltsin goes to Washington, Page 18

World growth held back by debts, BIS chairman warns

By Peter Marsh in Basle

LARGE debts and weak property prices in the developed world will hamper a return to strong global growth, Mr Bengt Dennis, chairman of the Bank for International Settlements (BIS), said yesterday.

Speaking at the annual meeting in Basle of the central bankers' bank, Mr Dennis said governments had been too lax in easing credit restrictions in the 1980s and would have to step up efforts to regulate the wave of new financial activities triggered by liberalisation.

The tone of Mr Dennis's comments was backed up in the annual report of the BIS, also released yesterday. The report voices doubts about whether the economies of European Community nations can move close enough to make economic and monetary union feasible, without unacceptably large fiscal transfers or high unemployment.

Efforts to establish European economic and monetary union by the end of the century may run into technical difficulties, according to the report.

Mr Dennis, who is also governor of the Bank of Sweden, said that, while the average inflation rate in the main industrial economies had been reduced from 5.75 per cent at the end of 1990 to just below 4 per cent, the rate was still "too high" and could impede an upturn.

However, "grounds for optimism" did exist, said the report, partly because of signs of revival in the US and strong growth in much of the developing world, including Latin America and east Asia.

The report, which reflects the views of BIS officials rather than those of the 32 central banks which own the organisation, sparked friction with some individual bank governors with a series of comments about prospects for European economic and monetary union.

The documents, written before the Danish referendum on the Maastricht treaty, said many European governments "were not unhappy about the lack of public debate in their countries prior to the Maastricht summit and did little or nothing to stimulate it".

It added: "Having managed to spring the programme on a largely unprepared public they are now faced with debate and dissention very late in the day."

The BIS report also strongly attacked the trade policies of many industrial countries as too restrictive and spelt out some of the difficulties for the banking sector arising from bad debts and weak economies in much of the developed world.

It said that international banking assets as measured by cross-border and local foreign currency claims, fell last year by $102bn, thought to be the first drop in this figure since the 1940s.

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CONTENTS

Germany to push for entry of three more EC members by 1995

By Christopher Parkes in Bonn

CHANCELLOR Helmut Kohl will press for Austria, Sweden and Finland to join the European Community by 1995 at next week's EC summit in Lisbon.

If the community did not push on urgently with enlargement, the "virus" of nationalism could delay European political union by 25 years or more, he told a meeting of Christian Democrat (CDU) party leaders and officials.

Attempting to rally his unsettled party behind a quick-fire programme of international and domestic initiatives, Mr Kohl skated over the imponderables thrown up by the Danish referendum's rejection of the Maastricht treaties.

However, he accepted that community leaders might not have explained the implications of economic, political and monetary union clearly enough. Stressing the benefits to Germany of EC membership, he asked party leaders to explain to voters that unification in 1990 had changed radically the country's political priorities.

As for the proposed single European currency, one of the most contentious EC issues, he would not support anything which did mot match the stability of the D-Mark.

Mr Peter Hintze, the CDU's new general secretary, complained of the "discrepancy" between the party's achievements and popular opinion and called for a "movement back to the people" through a fundamental reform of political communications.

Latest opinion polls show the CDU's popular support lagging 5 percentage points behind that of the opposition Social Democrats (SPD) and "an epidemic of mistrust" of politicians.

Kohl fears "virus" of nationalism

The CDU's support in the former GDR is also threatened by disenchantment with the mainstream parties. Mr Peter Diestel, former leader of the CDU group in the Brandenburg state parliament, has threatened to form a cross-party "Eastern Movement" in protest at the "emotional humiliation" of people in the five new federal states.

In response, Mr Kohl said the CDU should take advantage of the "disorientation" among the opposition, and use the opportunity quickly to resolve outstanding problems in social and budgetary policy.

Ruling out a "grand coalition" with the SPD and claiming Mr Diestel's project would achieve nothing, he called for an end to divisive east/west thinking in Germany.

Reconstruction in the east had absolute priority, he said. Promising to announce a firm budget policy in the next few weeks, he said "we can only win the 1994 general election if we keep national finances under control."

The offer of early membership to all interested members of the European Free Trade Area (Efta) would help counter resurgent nationalist tendencies threatening to hamper political integration, he claimed.

No-one should believe that chauvinism and nationalism were confined to Serbia, Croatia or the Balkans. "There is no European country including Germany which can claim to be free of this virus," he said.

Mr Kohl agreed with Mr John Major, UK prime minister, earlier this month on the need for the "speedy initiation and conduct" of entry negotiations for Efta members.

France, however, is more concerned that the bonds between the 12 should be tightened before membership is thrown open.

Kohl: he wants Sweden, Austria and Finland in the EC by 1995

Britain to keep tough law against rabies

BRITISH Farm Minister John Gummer said yesterday the UK would be able to keep tough anti-rabies laws when the European Community completes its single market after 1992, Reuter reports from Luxembourg.

"We have ensured that Britain will remain rabies-free," he said during a meeting of European Community farm ministers.

Britain, keen to keep the island free of the disease, had been worried that pets and other animals would be able to get into the country without going into quarantine first.

Now ministers have agreed that dealers will be able to import dogs and cats to Britain without quarantine provided the animals fulfil strict health criteria and pass blood tests to show they are rabies-free on entering the country.

But when the Commission gets round to drafting proposals for pets travelling with their owners, Britain has been promised legislation that would be at least as tough as its current quarantine laws, Mr Gummer said.

The Commission had floated the idea of "pet passports" certifying animals as disease-free, but Mr Gummer said the plan agreed yesterday ruled this out.

Swedish party's EC vote may split government

By Robert Taylor in Stockholm

SWEDEN'S Centre party will vote today at its annual conference on whether it wants the country to join the European Community. If it votes against EC membership the decision will precipitate a political crisis and split the Swedish government.

As a member of the four party coalition which took office last October, the Centre is committed to an agreed policy of pressing for Swedish EC membership. But a large number of the party's members and an estimated two thirds of its supporters are against EC membership, with only 13 per cent in favour.

Opinion appears to have hardened against Swedish EC membership since the Danish rejection of the Maastricht Treaty in the referendum on June 2. At present the Centre, which draws on support mainly from the rural areas, has around 7 to 8 per cent backing in the public opinion polls.

Mr Carl Bildt, Sweden's prime minister and Moderate party leader, has already warned the Centre that if it commits itself to an anti-EC position its ministers will have to leave the government. Yesterday Mr Olof Johansson, the Centre party's leader and environment minister, praised the Danes for rejecting the Maastricht Treaty. He said he was also opposed to any idea of a future European Union.

As a joint supporter of the all-party recommendation last year by the Swedish parliament of the application for EC membership, Mr Johansson added that he remained in favour of joining the EC if the right terms could be negotiated.

These would include assurances that Sweden would not be involved in any future military alliance, that the EC would have a strong regional policy and decentralised decision-making.

Frankfurt still favourite

By Christopher Parkes in Bonn

THE German government yesterday denied reports that it was prepared to propose Bonn as an alternative base for the future European central bank. Frankfurt was still the country's candidate, according to Mr Dieter Vogel, the official government spokesman.

"Chancellor Kohl has not changed his opinion," he said. Mr Theo Waigel, finance minister, also supported Frankfurt, his ministry said. However, officials in Mr Kohl's office are known to favour preparation of a fall-back negotiating position for the time when decisions must be made.

The denials followed reports that Bonn had been suggested as an alternative after resistance from other EC members.

Germans defend treaty

By Andrew Fisher in Frankfurt

THE chief economists of Germany's top three commercial banks yesterday sent out a counterblast to the severe criticism of the Maastricht treaty on EC economic and monetary union published by 60 professors this month.

"The arguments of the German professors on Maastricht breathe the spirit of the 1970s", the economists said in a joint statement by Mr Norbert Walter of Deutsche Bank, Mr Ernst Moritz Lipp of Dresdner Bank, and Mr Ulrich Ramm of Commerzbank. "They play down the risks of a regression to national narrow mindedness in the 1990s."

The professors, mostly younger academics but including the respected senior figures of Mr Herbert Giersch, former head of the Kiel economics institute, and Mr Karl Schiller, former economics and finance minister, had criticised Emu's haste and questioned whether a European central bank would be genuinely independent.

The bank economists said Emu was not just a "desirable goal" of European integration, as the professors put it, but the logical continuation of the European Monetary System (EMS) and thus an enhancement of the development towards a true European internal market.

Nor were the Maastricht criteria for economic convergence ahead of Emu too weak, the economists said.

In fact, they were so strict even countries such as Belgium and Ireland with ambitious financial goals could not achieve them at present.

Irish PM in last-ditch appeal to waverers in Maastricht vote

Dublin fears the Danish factor, writes Tim Coone

IN AN evident show of jitters in the run-up to Thursday's referendum on the Maastricht Treaty, the Irish government yesterday took the unprecedented step of ordering the state television and radio network to give air time to a broadcast by the prime minister, Mr Albert Reynolds, to argue the pro-European case.

He made a last-ditch attempt to convince Euro-doubters that by voting "Yes" Ireland's sons will not be drafted into a Euro-army, that Irish women will not be prevented from travelling abroad for an abortion, and conversely that Irish foetuses will be safe from Godless Eurocrats in Brussels. Instead, prosperity and national wealth will flow from European Union.

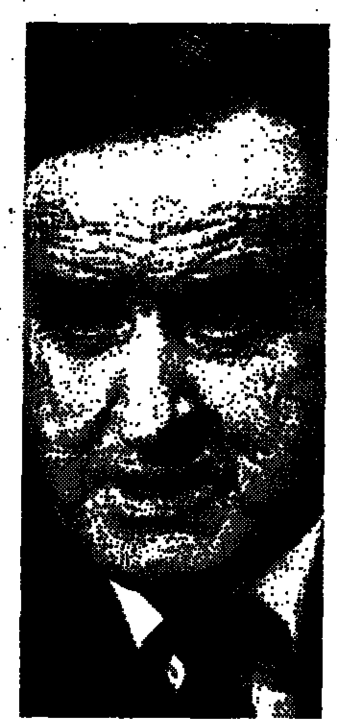
Although the weight of organised political opinion in Ireland has fallen heavily on the side of a "Yes" vote in the referendum, the government fears the Danish factor.

The government, the four main political parties, the four main employers' and business organisations, the main trade unions and farming leaders have all come out decisively in favour of ratifying the Treaty.

The most recent opinion polls also suggest that two out of three voters who have made up their minds will vote "Yes".

In similar circumstances, Danish voters proved the pundits wrong by rejecting the Treaty by a narrow margin.

The large number of undecided voters in Ireland, almost a third at the last count, suggests a similar outcome could occur, especially as the complacency and divisions in the "Yes" campaign have created opportunities for the opposition to exploit.



Reynolds: warning to doubters

Mr Reynolds said that rejection of the Treaty "would put the whole future of European integration at risk, and it would also put a serious question mark over our place in Europe".

"We cannot have our cake and eat it. It is not realistic to think that we can reject the European Union treaty and still enjoy the benefits of full membership."

The government has budgeted I£600,000 for its campaign, a large part of which has gone on sending a 16-page pamphlet to every house in the country, expounding the prime minister's message.

The four main parties have also been financing a poster campaign, although judging by the scale of their efforts party finance bosses have evidently been more concerned about conserving resources to fight the next general election rather than "squandering" part cash on what until recently had been considered a foregone conclusion.

Surprisingly, little of the political and financial muscle that is behind the "Yes" campaign has actually been flexed. At a press conference yesterday, Ireland's four main business organisations fired off broadsides in support of the Trea – but there is little evidence that they have helped to finance what has so far been a lacklustre campaign.

Mr Roy Donovan, the president of the Irish Chambers of Commerce, said: "The entire population is best served by an Irish business community that is competitive and successful at home and abroad."

Attacking the Euro-sceptics he said: "By implying that the economic advantages would fall to industry only and not to the wider community, they are thriving on rhetoric rather than fact."

Mr Paddy Marron, the vice-president of the Federation of Irish Employers said: "Rejection (of the Treaty) would have immediate consequences for business confidence, and the prospects for growth and employment in Ireland would be severely damaged".

Mr Liam Connellan the director-general of the Confederation of Irish Industry said: "I believe we have ahead of us more opportunities now than at any time since the founding of the state".

While Irish industrialists continue to voice their strong pro-Maastricht views the politicians have been bickering among themselves over the conduct of the campaign.

The ruling Fianna Fail party has come under attack for failing to get many of its party workers onto the canvassing circuit. A spokesman for the opposition Fine Gael party said: "They've been sitting on their backsides because Fianna Fail has traditionally been a nationalist party, and is not convinced by the federalist idea."

The Labour party leader, Mr Dick Spring, did two U-turns on the referendum in the space of a week, following the Danish vote; first advocating a postponement, and then deciding to back the plebiscite.

The anti-abortion lobbyists in the anti-Maastricht camp also draw on support from within the main parties.

A senior cabinet minister this week admitted that "many of the anti-abortionist lobbyists are party activists from within Fianna Fail or Fine Gael".

And he warned: "They know the ropes, how to lobby, and are very dedicated."

Portuguese customs to strike today

PORTUGUESE customs officers are due to go on strike at ports, airports and border crossings for seven days from today to protest against job losses when the European Community abolishes frontier controls in 1993, Reuters reports from Lisbon.

The officers' unions predict that 600 to 1,000 lorries will be stranded at Portugal's borders with Spain on the first day alone.

About 85,000 customs employees across the Community stand to lose their jobs with the creation of the single market on January 1, 1993, a tenth of them in Portugal.

The unions said customs workers had been offered Esc 86,000 escudos ($647) each in redundancy money from EC funds but the Portuguese government has not made it clear its own compensation plans.

French success on inflation continues

FRANCE'S inflation advantage over its main trading partners continued in May, official data showed yesterday, Reuter reports from Paris.

For the fifth consecutive month, the consumer price index (CPI) published by the national statistics office INSEE rose 0.3 per cent, for a year-on-year rise of 3.1 per cent.

Cumulative inflation in the first five months of 1992 was 1.3 per cent. The figures were in line with private economists' forecasts.

Finance Minister Michel Sapin "noted with satisfaction" that inflation was well below that of France's main trading partner, Germany, traditionally the champion of monetary rigour in Europe. West German prices rose 4.6 per cent in the year to May.

His ministry described the French figure as a good result, achieved despite higher oil prices and charges by doctors.

Prices rose 3.1 per cent last year and 3.4 per cent in 1990.

Unholy alliance of the heart robs Ukraine of its head

Nationalists back the old communists where independence is the deal and policy the price, writes Chrystia Freeland

THE statue of Lenin which once presided over the Ukrainian parliament has been replaced by a huge blue and yellow Ukrainian flag. In government offices the hammer and sickle have given way to the trident, the Ukrainian national crest, and portraits of Lenin have been replaced by those of Taras Shevchenko, the national poet.

But in that parliament and those government offices, the old communist deputies and party functionaries still dominate.

The reason is an alliance that Mr Leonid Kravchuk, the Ukrainian president, has forged with the nationalists who form the bulk of the organised political opposition in Ukraine.

It is an alliance based on an unwritten deal: Mr Kravchuk and the moderate communists he leads have backed Ukrainian independence and in return Ukrainian nationalists have allowed the apparat to remain in power.

And economic policy is footing the bill.

"The communist nomenclatura which was in power yesterday and the day before yesterday is still in power today," said Mr Volodymyr Filenko, one of the few Ukrainian members of parliament who directly criticises the government.

Mr Kravchuk has generously fulfilled his side of the bargain. Historically, Ukrainian independence has been a losing proposition – in the past millenium Ukraine has enjoyed only three periods of statehood, each more tenuous than the last.

'Let us unite with the devil, with anyone, so long as we become independent'

But with the cunning Mr Kravchuk at the helm Ukraine has successfully sailed past the dangerous shoals of the Soviet Union and is moving out of reach of Russian domination.

Mr Les Taniuk, a theatre director turned politician and one of the most vocal critics of the nationalist-communist alliance, says many Ukrainian nationalists take the view: "Let us unite with the devil, with the Bolsheviks, with anyone at all, so long as we become independent."

Two of the three co-leaders of the strongest independent movement in Ukraine have said that they support the president. This spring, the newly-elected heads of the Ukrainian Republican Party, once the most radical in Ukraine, said that their organisation should choose co-operation rather than conflict with the government.

Mr Kravchuk, pleading the need for a strong executive able to implement economic reform, has won extensive authority to rule by decree and has created a network of presidential plenipotentiaries throughout Ukraine.

Nearly 80 per cent of these representatives are former communist functionaries and they enjoy the same nearly feudal powers once exercised by the old communist regional bosses. For example, Mr Ivan Sali, the presidential representative in Kiev, has tried to oust western organisations with valid leases on city property in the hope of replacing them with higher-paying tenants.

Western officials privately acknowledge their concern about the authoritarian turn in Ukrainian politics, which extends to Ukraine's sycophantic mass media, but Mr Kravchuk is gambling that the west will accept Ukraine's touted political stability as a proxy for genuine pluralism.

Ukraine has been less successful at selling its lacklustre economic programme abroad. On a recent visit to Kiev, Mr Larry Summers, chief economist of the World Bank, warned Ukrainian officials that: "There is an understanding that reforms are necessary but that which is going on in Ukraine today can not be called reform."

Mr Summers found fault with almost every aspect of the government's reform plan: the budget, seen as a cosmetic effort to please the International Monetary Fund, setting over-ambitious targets and not establishing a structural basis for reform; the tax scheme, according to which enterprises can pay a wapping 80 per cent of revenue; the social welfare net, more generous than impoverished Ukraine can afford; the price system, still not fully liberalised; the state order, a code word for central planning which remains the guiding force in the Ukrainian economy; and the privatisation plan, which looks good on paper, but has not yet been implemented.

Ukrainian politicians who oppose the government's course warn that failure to reform the economy will ultimately backfire. Their fears are borne out by wildcat strikes throughout the Russified eastern Ukraine – which supported independence in the belief that it would bring prosperity – and the Donbass miners' threats to go on strike.

'That which is going on in Ukraine today can not be called reform'

However, in the short term, Ukrainian communists are cushioned from public pressure by their nation's rich black earth, which guarantees Ukrainians a relatively high standard of living no matter how inept their government.

Just over six months since the nationalist-communist alliance drew an overwhelming 90 per cent yes vote in Ukraine's referendum on independence, dissenters are emerging, with the goal of creating a real alternative to Mr Kravchuk's government. Mr Viacheslav Chornovil, a former political prisoner from western Ukraine, hopes to transform the republican party into a genuine opposition party. New Ukraine is trying to unite eastern Ukrainians, ethnic Russians and businessmen around a call for more radical economic reform.

The two groups came together last week to call for the resignation of conservative prime minister Vitold Fokin. But their bid was defeated in a 168-154 vote in parliament which prompted Mr Volodymyr Lanovoy, deputy prime minister and a member of New Ukraine, to threaten to resign.

But the mounting hostility between Ukraine and Russia threatens to breathe life into the alliance which swept Mr Kravchuk into power in the first place. As Mr Taniuk, a Chornovil supporter, warned: "If the chauvinist line is strengthened in Russia, that is dangerous because it will enhance Kravchuk's authority here."

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Industry agrees to back HDTV in Community

By Andrew Hill in Brussels

TELEVISION broadcasters, satellite operators and equipment makers have agreed to act together to promote wide-screen high-definition television (HDTV) in the European Community – provided EC member states fund the proposals.

A declaration of intent was approved yesterday by nearly 40 companies and professional associations from across Europe.

The declaration falls short of the legally-binding document which the European Commission originally hoped the industry would sign, but it should be followed up by bilateral contracts between the companies and the Commission, granting funding to individual projects.

The success or failure of the whole programme now depends on the willingness of EC member states to approve the Commission's Ecu850m ($1.1bn) HDTV "action plan" – or at least a large enough part to satisfy the companies.

The action plan itself is dependent on funding being made available for HDTV as part of the new overall EC budget proposals, which have already been attacked by a majority of finance ministers.

A Commission official said last night that the declaration by the companies might encourage some of the more sceptical EC members to back the action plan. "This is an important political signal on the part of industry that it's ready to play the game," he said.

Under the so-called memorandum of understanding approved yesterday, broadcasters have said they will prepare an operational project for the launch of an advanced wide-screen satellite or cable television service, using the D2-Mac transmission standards laid out in the directive agreed by member states last December. D2-Mac is an intermediate standard which should lead in the end to full HDTV.

Manufacturers have committed themselves to producing sufficient quantities of D2-Mac wide-screen sets. Satellite and cable operators have said they will make available the capacity to transmit wide-screen programmes in the new standards.

The industry groups, which have been bickering about HDTV strategy for some years now, have also agreed to form a consortium to promote the principles laid out in the memorandum. Other companies and associations will be allowed to join the group at any stage.

Belgian PM sees privatisation case

By Andrew Hill in Brussels

THE Belgian government should consider privatisation as a way of easing the burden of Belgium's large budget deficit, Mr Jean-Luc Dehaene, the Belgian prime minister, said yesterday.

In an interview with the Financial Times he said that he hoped for "an objective debate" about privatisation, but he cautioned against overestimating the impact of such measures.

"Part of the cleaning up [of public finances] has to include questioning or evaluating a certain number of tasks that the state has done in the past, which it's not clear it needs to do today," he said.

The opposition liberal parties in Belgium have long called for a privatisation policy, but Mr Dehaene, a Flemish Christian Democrat, would first have to convince his socialist coalition partners of the value of such a move.

"Privatisation isn't the panacea which is going to resolve all the problems," he said "It would have to be done in an orthodox way: it should serve to reduce debt, not finance current expenditure – which is the case with certain opposition plans – and thus the short-term impact would be less dramatic than some think."

Belgium has a large public sector, which includes the national lottery, a number of public credit institutions, the telecommunications, postal, and rail services. Work has already begun on giving some of these over-bureaucratic public bodies an autonomous company-style statute and putting in place a proper corporate management.

Government officials stress that this is not necessarily a prelude to privatisation and Mr Dehaene himself says he would be happier giving priority to these "intermediate routes" for the time being.

Hill Samuel, the British merchant bank, and Petercam Securities, a Belgian broker, commissioned an academic study earlier this year which estimated that the state could raise some BFr318bn (£5.3bn) through privatisation of the assets which it owns directly.

See Belgian Survey

Brittan issues cash transfer ultimatum

BANKS must cut their fees for transferring money between European Community countries by the end of the year or risk the EC passing laws to make them improve services, European commissioner Sir Leon Brittan said yesterday, Reuter reports from Brussels.

"By the end of this year the standard of service should be improving, with prices coming down and delays being reduced," said Sir Leon, who is in charge of banking policy.

"Double charging for transfers between banks must become a thing of the past," he told the European Banking Federation. "Otherwise the momentum which has built up behind improving payment systems will lead inexorably towards pressure for Community-wide legislation," he said.

It was one of the clearest ultimatums so far in a campaign by the Commission to cut the time taken to transfer money from one EC country to another and to lower the often prohibitive costs to business and private customers of sending money abroad.

Commission officials have said bank charges on around 200m such transactions each year in the Community amount to about Ecu2bn (£1.4bn). Cross-border transfers can cost up to 20 times more than domestic transfers in some EC states.

E Germany sees rise in industrial production

By Christopher Parkes in Bonn

DAILY industrial production in east Germany rose 10.5 per cent in March. The increase, attributable mainly to a 22.5 per cent surge from the construction industry, was the first significant month-on-month rise since last November.

Manufacturing industry also enjoyed a 12 per cent increase. However, the economics ministry said the figures were heavily influenced by seasonal factors.

Aggregate industrial output for February and March together is was still 3.8 per cent below the same two months in 1991. The investment goods sector fell 7.3 per cent while consumer goods manufacturing rose 10.5 per cent during the two months.

Mining and energy output fell sharply by 40 per cent and 17 per cent respectively.

Meanwhile, west German consumer prices increased by a revised 0.4 per cent in May, bringing the year-on-year rate to 4.6 per cent, according to the federal statistics office.

The main upwards pressure came from a 7.2 per cent rise in the so-called "car drivers' index" – an aggregate calculation covering the costs of owning and running a private car.

The retail price index was 3.3 per cent up on the year, but rents and the cost of services and repairs showed above average increases of 5.1 per cent and 5.6 per cent.

Azeri forces claim gains near Nagorno-Karabakh

AZERI forces said yesterday they had pushed Armenian fighters out of the Shaumyan district of Azerbaijan, in a third day of heavy fighting in and around the disputed enclave of Nagorno-Karabakh, Reuter reports from Moscow.

Recent clashes have left thousands of refugees including these Azeris (above) in a camp close to the Armenian border.

The Asa-Irada news agency reported that Azeri forces captured the town of Gulustan, the last Armenian-held stronghold in Shaumyan district just north of Nagorno-Karabakh itself.

In Armenia, which punched open a road corridor to Nagorno-Karabakh in a major offensive last month, a Karabakh committee official confirmed the loss of Shaumyan. He said Azeri forces were using more than 300 tanks and armoured vehicles, helicopters and jets.

EC inches closer to recognition of Macedonia

By David Buchan in Luxembourg

THE prospect of European Community recognition of Macedonia inched nearer yesterday, as the latter held its first direct talks with Greece to resolve their months-long impasse over nomenclature.

Mr Joao de Deus Pinheiro, foreign minister of Portugal which holds the EC presidency, reported that "positive aspects" had emerged from separate talks he held on Sunday with prime minister Constantine Mitzotakis of Greece, and Macedonia's foreign minister, Dr Denko Maleski.

The Portuguese presidency has floated a four-point plan to ease Greek fears that recognising Macedonia under that name would stir separatism in northern Greece.

This involves EC guarantees of the two countries' border, an exchange of notes between Athens and Skopje disclaiming the existence of a Slav minority in Greece, EC aid for Macedonia, and a commitment by Macedonia to clarify that its constitution implies no territorial claim on Greece.

After Dr Maleski met Mr Mitzotakis' deputy foreign minister yesterday, Portuguese officials reported both Greece and Macedonia were happy with the four points, but still stuck over the latter's name.

Belgium suggested that for a time Macedonia use one name at home and another abroad.

President Kiro Gligorov sent a letter to yesterday's meeting of EC foreign ministers complaining of the Community's failure to grant his state recognition nearly six months after it said it met the test of independent statehood.

He asked if there had to be war in Macedonia as in other ex-Yugoslav republics for it to be recognised.

Seeking to avoid the eruption of another flashpoint in Kosovo, the Serbian province that is largely Albanian, EC ministers cautioned all parties to exercise restraint.

This is both a warning to Serb leaders not to repress the mainly ethnic Albanian population in Kosovo, and to the neighbouring state of Albania not to intervene and so bring an international dimension to the the Yugoslav civil war.

West is demanding reforms by developing countries while closing access to its own markets

Industrialised nations rebuked on trade policy

Reports by **Peter Marsh,** Economics Staff, in Basle

RESTRICTIVE trade policies by many industrialised nations are damaging the prospects for world growth, the Bank for International Settlements says in its annual report published yesterday

In a strongly worded rebuke, the central bankers' bank hints that the industrialised world has been hypocritical in encouraging trade reforms by developing nations, while at the same time clamping down on access to its own markets.

The Bank – which is owned by 32 central banks, mostly from the main industrialised nations, and is independent of governments – says many developed countries have protectionist trade policies particularly in farm products, semi-finished manufactured goods, clothing and textiles.

In remarks which will add to concern about the stalled Uruguay round of world trade talks, the Bank says the trade policies of many industrialised nations "have in many ways become more restrictive in recent years".

It adds: "The awakening of so much of the developing world to the benefits of free trade places a special responsibility on the countries in the industrialised world to open their markets."

The report criticises the trend in recent years towards "managed" trade agreements by groups of industrialised countries, often on a bilateral basis. These include agreements covering exports of Japanese goods such as cars and semiconductors into the US and European Community.

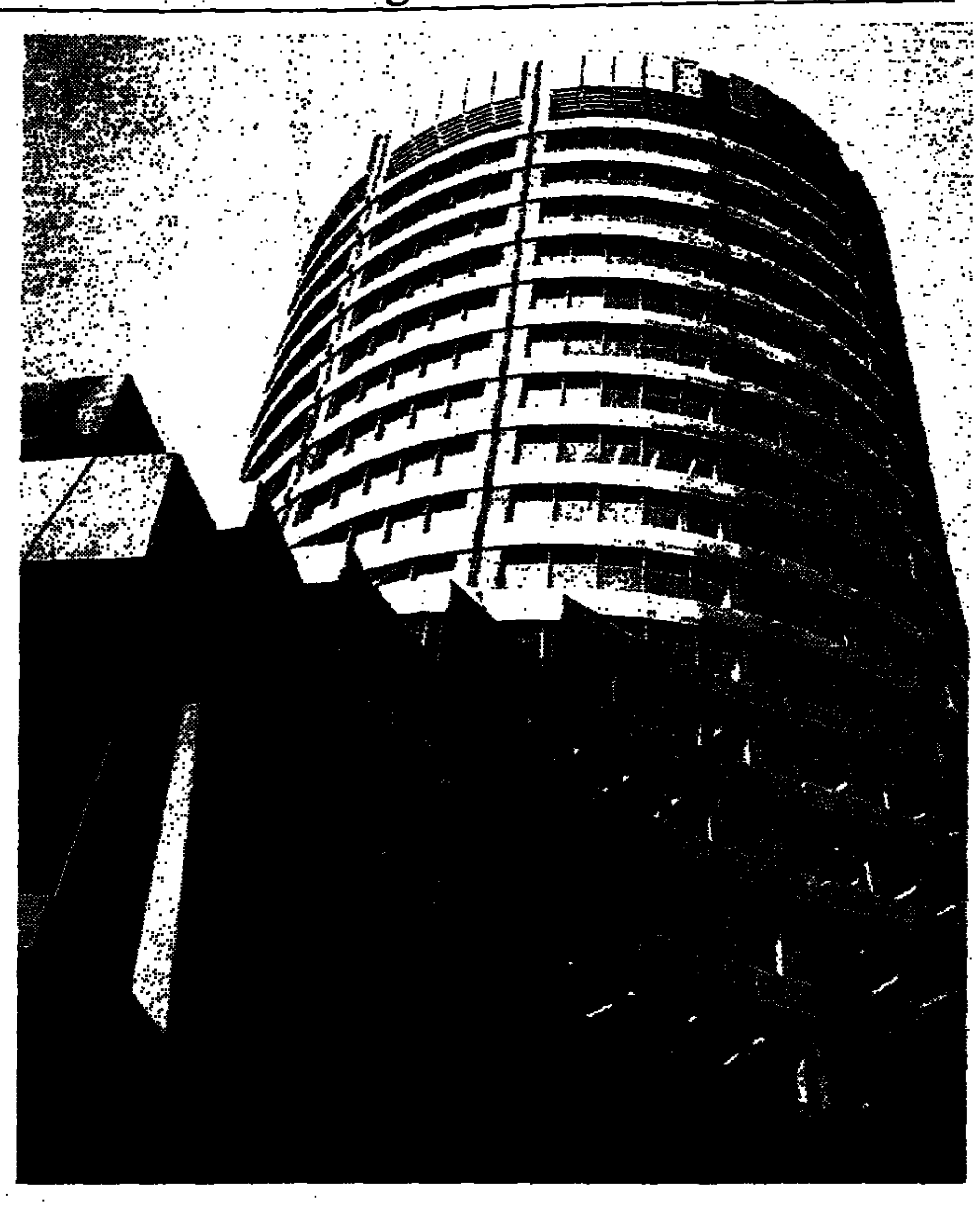
"Such measures restrict consumer choice, inflate costs and raise prices," the Bank says. "By allowing some enterprises to be quite relaxed about their own inefficiencies, a vital force for greater productivity in the medium term is considerably weakened." The accords also "do little to promote domestic output and employment as a whole, as measures that protect one industry inevitably hurt others".

The report also singles out restrictive policies over agricultural trade which "insulate domestic markets from the influence of world prices" and lead to production inefficiencies.

According to the Bank, the policies of the developed nations have been at variance with the efforts by many developing countries to move to free-trade policies, through measures such as more competitive exchange rates, greater openness to foreign investment and elimination of import tariffs.

In the past five years, 51 developing nations have announced unilateral measures to open up trade, which the Banks says have been "often far reaching".

These reforms "will only bear fruit" if markets in the industrial countries themselves become more open.



The headquarters building in Basle of the Bank for International Settlements

Emu faces testing time on technical and political fronts

EFFORTS to establish European economic and monetary union by the end of the century is likely to run into technical difficulties, according the BIS.

In its report the bank voices doubts about whether the economies of European Community nations can move close enough to make Emu feasible, without unacceptably large fiscal transfers or high unemployment.

In remarks written before the Danish rejection of the Maastricht treaty earlier this month, the bank says the goal of a single monetary policy for Europe could be hindered by a lack of political consensus across the continent.

Another problem is the rapid pace of financial deregulation since the 1980s.

This could over the next few years lead to large transfers of money across national borders in response to economic shocks, so making the goal of fixing exchange rates ahead of a monetary union more difficult.

The sceptical comments by the bank about Emu underline uncertainty about Emu, which after the Danish decision appears increasingly unlikely to become established as planned by 1999.

The report says efforts to engineer a convergence in inflation and interest rates across Europe – a necessary condition for union – could lead to "large adjustment problems".

While not all Community nations would necessarily have to enter Emu at the same time, attempts to ensure that a large enough number of nations met the convergence criteria "could render exchange rate and, perhaps, budgetary policy in some countries too rigid in the next few years".

The creation of high unemployment and low growth in countries which attempted to bring down inflation to German-style levels could trigger demands for richer nations to transfer money to the poorer ones, in the form of social security payments or schemes to boost industrial development.

But "achieving political consensus to release the necessary resources will not be easy," according to the report.

In a passage indicating that large fiscal transfers of this kind could damage competitiveness and lead to higher taxes, the bank warns that experience in Europe with agricultural and industrial subsidies and support for people on low incomes "may not seem encouraging".

As for the operation of the proposed European central bank, the report says "[pan-European] monetary policy decisions may be difficult to agree upon and defend, particularly as levels of structural unemployment will continue to differ from country to country".

It also warns that any tendency for equalisation of wage levels that ignores productivity differences "could have unwelcome unemployment implications".

E Europe pressed to cut public spending

GOVERNMENTS in eastern Europe should sharply reduce public spending and reform their tax systems if they are to improve on the "dismal and disappointing" performances of their economies since the fall of communism, according to the BIS

The bank says that after a collapse in output last year in several of the nations of the former communist bloc, prospects of a return to growth are poor. The region faces dangers of prolonged high unemployment and "reform fatigue".

Many of the nations continue to suffer high inflation, delays in privatising state-owned enterprises, large government deficits and poorly developed taxation systems and financial markets.

Reforms in much of the region should be aimed at reducing the size of the public sector relative to gross domestic product. Subsidies to inefficient enterprises should be cut, leaving room for an increase in public investment aimed at building new roads and other items of infrastructure and tackling environmental damage.

Failure to reduce state spending in this way could lead to the need to impose punitive tax rates, which would further reduce growth prospects, the BIS says.

Weaknesses in the present tax systems include their emphasis on taxing profits of mainly state-owned enterprises, rather than taking a proportion of the incomes of households.

Also, the levels at which the tax systems claw revenues from economic activity are mostly established with reference to prices set by the state rather than those determined by the market.

Shifting the burden of taxation from the state-owned enterprises requires "an extension of the tax administration to cover households and private enterprises, including the adoption of an unambiguous definition of profits and accounting rules for depreciation and deduction of interest payments".

It says that of the nations in the region only Hungary has attempted to introduce a system of value added tax directed at taxing goods with reference to market prices.

One bright spot for the region, the report says, is that many of the countries have seen some success in reorienting trade to open up export markets to the west. The dollar value of east European exports to western nations increased by 10 per cent in 1991, after an 18 per cent rise in 1990.

Warning over financial market liberalisation

THE developed world has underestimated the costs of liberalising its financial markets, the Bank for International Settlements says.

The annual report says governments must take steps to tackle the problems triggered by liberalisation, for example supervision of financial groups which are outside the regulatory framework.

Also, authorities should try to develop new systems of crisis management which might be needed to tackle unexpected events such as stockmarket crashes whose impact may be heightened by looser regulation.

According to the Bank, the looser shackles covering financial and banking activities in many nations offer "major opportunities but also commensurate risks". Not enough has been done to tackle these last areas.

A particular problem is the surge in volume of money transferred among financial groups across national borders. As a result, the banks involved in these transfers "now incur unprecedented ... liquidity and credit exposures, potentially on a larger scale than the exposures traditionally captured in their balance sheets and often less closely monitored and controlled."

The bank says fluctuations in the market price of assets is an important source of potential shocks to the financial system, which can take the form of events such as the 1987 stockmarket crash.

The BIS said that many potential problems in financial markets had stemmed from "the growing complexity of organisational structures typified by the emergence of national and international financial conglomerates".

Such organisations were often difficult for individual authorities in a single country to monitor efficiently – in which case greater pooling of information on supervisory activities should be agreed by governments.

According to the BIS, the recent BCCI scandal represents one example where "banking industry financial globalisation has allowed ample scope for the creation of opaque corporate structures."

It adds: "Under these conditions the evaluation of risks ... becomes considerably more difficult."

Governments need to co-ordinate their supervisory activities by, for instance, setting up schemes to share out potential financial losses.

Also, individual institutions should build into their own operations a greater awareness of the risks triggered by deregulation.

In theory, authorities should aim to keep their supervisory activities to the minimum necessary to promote financial stability.

The report said that greater safeguards on supervision should focus on four areas:

- Prudential regulation and supervision of individual institutions such as through guidelines on capital standards.
- New checks on the design of large and complicated financial systems such as payment and settlement networks, with a view to reducing the chances of large sums of money being put at risk by events such as a reduction in the market price of financial instruments.
- Crisis management techniques under which authorities might be able to intervene to reduce the effects of events such as stock market crashes.
- Achieving the right balance between government involvement and instituting discipline in markets to minimise financial risks.

Cross-border securities show a double appeal

INCREASED globalisation of financial markets and extra demands on fund managers to squeeze out profits forced a doubling last year in cross-border securities investments in the industrialised world.

According to the Bank for International Settlements' annual report, total cross-border transfers of funds into investments such as equities and bonds last year totalled \$388.7bn (£213.5bn) – roughly equivalent to the gross domestic product of Spain.

This was more than double the relatively modest \$159.1bn recorded in 1990, and well up on the \$186bn which was the average for the years between 1985 and 1989.

Last year's jump in investments, most of which were made by large banks and other financial groups, reflects an increased demand among fund managers to scout out the best opportunities for increasing profits on investments – a trend to which the poor state of the economy in many industrial countries last year may have contributed.

It also reflects last year's problems in the banking sector which led to a large amount of funds being withdrawn from banks and placed in equities and bonds. The large increase in transfers may also have been assisted by last year's roller-coaster movement of the dollar against other leading currencies.

The behaviour of the US currency – which appreciated heavily in the first six months of 1991 before falling back later on – may have encouraged a greater amount of switching in and out of dollar-denominated securities.

Even though the Japanese stock market last year performed relatively poorly, foreign investors placed a record \$47bn in Japanese equities after being net sellers to the tune of \$13bn the previous year.

- The US Federal Reserve and the German Bundesbank conducted an unusual swap arrangement last year under which the Fed sold \$5.5bn-worth of D-Marks to the German central bank in an attempt to reduce the US's rapidly-growing foreign currency reserves. According to the BIS's annual report, the manoeuvre was behind a net \$5.6bn fall last year in the US's reserves to \$66.7bn. Last year, the Fed also arranged a similar deal with the Bank Of Japan under which it sold about \$3bn-worth of yen in a further bid to cut its reserves.
- Taiwan's foreign currency reserves – which increased by \$10bn to \$82.4bn last year – have become the world's largest single stock of such assets.

In second place are the foreign currency reserves of Japan (\$72.0bn), the BIS says. Others in the top eight rank as follows: US (\$66.7bn), Spain (\$65.8bn), Germany (\$63.0bn), Italy (\$48.7bn), China (\$43.7bn) and UK (\$41.9bn).

CROSS-BORDER SECURITIES MOVEMENTS IN INDUSTRIAL COUNTRIES (\$bn, annual averages)

	1975-79	1980-84	1985-89	1990	1991*
TOTAL OUTFLOWS	12.4	41.8	176.8	151.6	277.6
US	5.8	5.8	9.5	28.5	46.2
Japan	2.6	13.8	89.9	39.7	74.3
European Community	3.8	18.9	62.6	79.8	144.0
TOTAL INFLOWS	25.0	57.8	186.0	159.1	388.7
US	4.6	16.7	59.2	2.9	52.3
Japan	3.0	-11.9	23.3	34.7	115.3
European Community	8.5	17.7	70.4	94.4	173.7

*Partly estimated. Source: BIS

Clearing system plan to preserve CIS trade

THE BIS proposes a special clearing system as a last resort to prevent a breakdown in trade among the republics of the Commonwealth of Independent States, Reuter reports from Basle.

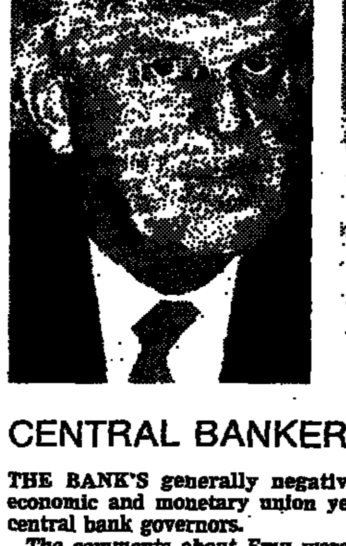
It says the west needs to provide external finance while Russia and the other republics make the transition to market economies. But the most valuable help would be to allow the CIS free access to western markets.

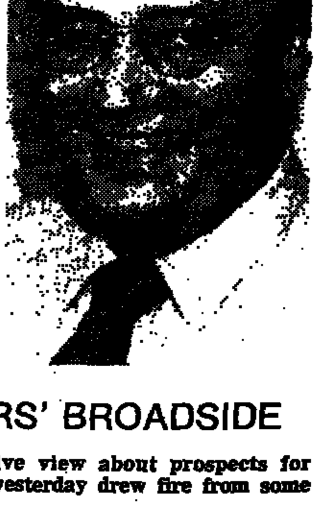
Although the CIS's struggle to adjust is the most striking new feature of the world economic landscape, the BIS says its debt problems do not seriously threaten the financial system.

Specialisation under the command economy of the former Soviet Union was so great, with one or two factories sometimes producing a specific product for the whole country, that exports to other republics often accounted for 40-50 per cent of gross domestic product. Sustaining this trade as the successor republics move to world prices and open up to external competition is an urgent task, it says.

In principle, the rouble could be used to finance trade if it were stabilised and made convertible. But the plans announced by a number of republics to introduce their own currencies risk eroding the rouble area.

Another solution would be to make the new currencies convertible for most international trade. But this might be neither feasible nor desirable in the short term, the BIS says.





CENTRAL BANKERS' BROADSIDE

THE BANK'S generally negative view about prospects for economic and monetary union yesterday drew fire from some central bank governors.

The comments about Emu were contained in sections of the BIS's annual report – which was drafted under the supervision of Mr Alexandre Lamfalussy, BIS general manager, and Mr Horst Bockelmann, economic adviser.

The report's caustic views on Emu – coming at a delicate period when the entire project is uncertain due to the Danish referendum result – were seen by some governors as unhelpful in terms of adding to public scepticism about the scheme.

Mr Wim Duisenberg (above, left), governor of the Netherland's central bank, said: "I don't agree with this part of the report." He remained hopeful that the difficulties over Emu could be overcome and the project would go ahead as planned.

Mr Erik Hoffmeyer (above, right), governor of the Danish central bank who is also chairman of the committee of European Community central bank governors, said he found "surprising" the negative views of the BIS officials on Emu.

Mr Alfons Verplaetse, governor of the Belgian central bank said he "did not want to minimise the problems" over Emu but was confident of the project's success.

Mr Lamfalussy said the bank's policy had always been that officials were free to write the report based on their own judgments and without input from the central banks among their shareholders.

Latin America benefits greatly from diversion of spending by big companies

Multinationals switch focus of investment

MULTINATIONAL companies shifted emphasis in their investment strategies last year away from the industrial world and towards developing nations, the BIS annual report says.

Latin America was one large beneficiary of the diversion in spending power, which was due partly to the fragility of the economies in many developed nations and to the increased interest by many large companies in building up operations in the non-industrialised world.

Meanwhile, Japanese overseas investment, especially in the US, was sharply curtailed. The BIS says this reflects both the weak state of the US economy and the relatively poor returns by Japanese companies on their capital spending in North America.

GLOBAL PATTERN OF DIRECT INVESTMENT (\$bn, annual averages)

	1975-79	1980-84	1985-89	1990	1991
OUTFLOWS					
Industrial countries	34.7	41.0	128.4	209.5	165.5
US	15.9	9.6	22.8	33.4	29.5
Japan	2.1	4.3	23.8	48.0	30.7
European Community	14.2	20.9	59.4	97.5	80.5
Developing countries	0.6	1.4	6.5	12.9	11.8
Asia	0.3	0.8	5.6	11.2	10.3
Latin America	0.1	0.2	0.4	1.1	1.0
TOTAL	35.3	42.4	134.9	222.4	177.3
INFLOWS					
Industrial countries	19.9	36.2	98.1	148.7	115.2
US	6.1	18.6	48.2	37.2	22.2
Japan	0.1	0.3	0.1	1.8	1.4
European Community	11.4	14.2	38.4	85.9	67.7
Developing countries	7.0	16.4	19.5	30.9	42.7
Asia	1.9	4.7	10.8	19.9	25.7
Eastern Europe	0.0	0.1	0.1	0.5	2.3
Latin America	3.6	5.4	5.7	7.8	12.0
TOTAL	26.9	52.6	117.6	179.6	157.9

Discrepancy in total outflows and inflows is due to official reporting errors. The figures for 1991 are partly estimated. Source: BIS

Eastern Europe also saw a large increase in foreign investment, although from a small base.

Total foreign investment, which is mainly by western-based multinational companies, reached an estimated \$177.3bn last year, about a fifth down on the \$222.4bn in 1990.

In terms of the direction of investment, spending in the industrial countries came to \$115.2bn, 23 per cent down from \$148.7bn in 1990. Investment in the developing nations came to \$42.7bn, 38 per cent up on the \$30.9bn recorded in the previous year.

Of total foreign investment, the share which ended up in the industrial world went down to 73 per cent from 83 per cent in 1990, while the share in the developing countries increased to 27 per cent from 17 per cent.

Spending in Latin America rose to \$12bn from \$7.8bn, largely due to liberalisation in trade policies, greater openness to foreign involvement and more stable macroeconomic policies.

Investment in Asia also showed a steady increase to \$25.7bn from \$19.9bn. As well as reflecting the activities of western-based multinational companies, much of this spending came from funds supplied by companies in high-income Asian countries such as Taiwan and South Korea, which flowed into lower income nations including China, Indonesia, Malaysia and Thailand.

Investment by overseas businesses in eastern Europe reached \$2.3bn in 1991, after just \$500m the year before.

Cautious optimism voiced for world recovery

THERE are grounds for cautious optimism about the prospects for world economic recovery, according to Mr Alexandre Lamfalussy, general manager of the Bank for International Settlements.

In comments in the BIS's annual report Mr Lamfalussy says that growth in much of the developed world should soon start to recover from its depressed levels last year.

Among the reasons for optimism are signs of recovery in the US, aided by a revival in housing investment. Private sector debt in both the US and UK has fallen, while low inflation in much of the industrialised world should aid increased growth.

Large government budgets in many countries are helping to stimulate demand, even though the consequent deficits give some cause for concern.

Efforts should be made, says Mr Lamfalussy, to reduce deficits where possible and also to channel extra government spending "into public investment rather than public consumption, and into projects chosen on the basis of their likely return over the medium turn".

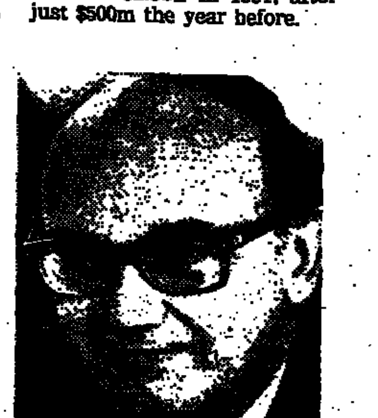
The costs of servicing the large debts taken on by many people and companies in the 1980s had retarded the recovery in some countries last year. Another worry concerns the large fall in land and property prices experienced in many nations.

However, Mr Lamfalussy says it is "far-fetched" to draw parallels between the depressed state of the world economy and the depression of the 1930s.

In further discussion of the world economy elsewhere in the report, the BIS says restrictions in bank credit in the US arising from the weak state of the banking industry "may have become a serious constraint" on spending and hindered an upturn.

As for Europe, the report draws attention to "dissatisfaction" with the operation of the European Monetary System, which due to tight monetary policy in Germany has prevented several European nations from reducing interest rates to levels that could help recovery.

But one bright spot is the resilient performance of the economies of a large part of the developing world, particularly in Asia and Latin America. Many nations in these regions have made strides in structural economic adjustments and reductions in overseas debt.



Lamfalussy: investment

Collor confronts reality after summit triumph

By Christina Lamb in Rio de Janeiro

PRESIDENT Fernando Collor of Brazil flew back to Brasilia and harsh reality yesterday after two weeks of presiding over the world's largest-ever gathering of heads of state.

Widely praised for his government's handling of the Earth Summit in Rio de Janeiro, Mr Collor returned to the capital to face mounting economic and political problems.

He did not have a good start. The stock market fell 8 per cent yesterday morning on a new wave of corruption allegations involving Mr Collor. The charges came in an interview published on Sunday with Mr Luis Octavio da Motta Veiga, a former head of Petrobras, the state oil company.

Mr Motta Veiga made detailed allegations of the power wielded in the government by the president's friends, and said he had been dismissed because he refused to allow them to influence appointments or the award of contracts.

He said he thought the Collor government "will not escape cleanly" from a parliamentary inquiry under way into alleged extortion by Mr Paulo César Farias, Mr Collor's campaign treasurer and close friend.

The inquiry, which began on the first day of the Earth Summit, was prompted by allegations against Mr Farias and Mr Collor by the president's younger brother Pedro, and has only been kept off the front pages for the last two weeks by the conference.

This is not Mr Collor's only problem. Inflation is rising again, last month reaching 22.5 per cent, and an expected turnround in growth has not come. Businessmen are once more increasing prices rapidly, fearing another price freeze.

One of the most pressing concerns is a possible collapse of the country's accord with the International Monetary Fund. Having failed to meet first-quarter targets in April, Mr Marcilio Marques Moreira, the economy minister, admits those of the second period may also be missed because of continuing high inflation and interest rates which are resulting in an explosion in domestic debt.

The accord, signed in January, had been based on inflation falling to 2 per cent a month by December. However, after a meeting with Mr Michel Camdessus, IMF managing director, Mr Moreira said he was confident the accord would not collapse because "the IMF is happy with the thrust of our economic policy and understands that we are emerging from a very difficult decade".

Venezuelan officers fill top ministerial posts

TWO SERVING military officers were sworn in yesterday as Venezuela's new ministers of defence and foreign affairs, in an apparent gesture by President Carlos Andrés Pérez towards the armed forces, writes Joseph Mann in Caracas.

Air Force General Ivan Dario Jimenez Sanchez takes the key position of defence minister, while Army General Fernando Ochoa Antich, who held the defence post since June 1991, was moved to head the Ministry of Foreign Affairs.

It is the first time an active member of the armed forces has held the post of foreign minister, and that a cabinet has had two on-duty generals in important positions.

The government's former debt negotiator, Mr Carlos Hernandez Delfino, is to head the Venezuelan Investment Fund overseeing privatisation.

Ghost of Dukakis slain by Massachusetts tax-cutter

Martin Dickson on a Republican governor who calls himself a 'filthy supply sider'

A STUFFED armadillo adorns a mantelpiece in the office of Mr *William Weld, governor of Massachusetts.*

It is an appropriate, if unintended, symbol of the thick skin the Republican Mr Weld has required in the 17 months since he became governor and began to make radical changes in the way the traditionally Democratic state is run.

Through deep cuts in welfare programmes and the civil service, Mr Weld has succeeded in bringing Massachusett's run-away budget under control – to the point where he is now trying to push through the legislature modest tax cuts in a state formerly known as "Taxachusetts". This contrasts with the tax increases many states have been pushing through to cope with a recessionary shortfall in revenues.

He has also put Massachusetts at the forefront of America's fledgling "entrepreneurial government" movement, which seeks to make the bureaucracy more efficient through the use of business techniques and the privatisation of services.

All this has made Mr Weld plenty of enemies. Church leaders have accused him of showing a "callous disregard for the poorest". Democratic politicians have attacked his proposed tax cuts as irresponsible financial legerdemain. The state's teachers, upset about budget cuts, threatened to strike. But the opinion polls show Mr Weld remains solidly popular with the electorate.

That is hardly surprising, given that Mr Weld was elected on a wave of revulsion against high taxes, politics-as-usual and the Democratic machine of Mr Michael Dukakis, the former governor and 1988 Democratic presidential candidate .

Mr Dukakis enjoyed great popularity in the mid-1980s as the state economy outpaced the national average, thanks to a boom in the defence and computer industries, which in turn fed a speculative property bubble.

But the bubble burst and New England plunged into a severe recession, *which took with it some 10 per* cent of the region's jobs and nearly 100 of its banks. The much-vaunted "Massachusetts miracle" turned to dust, and Mr Dukakis's reputation with it.

Mr Weld, a Harvard and Oxford educated lawyer from a wealthy New England family, likes to characterise himself as a "filthy supply sider" – a follower of the tax-cutting economic theories popularised by former President Ronald Reagan.

Yet his blend of policies defies traditional conservative/liberal labelling: on some social issues he is well to the left of Republican orthodoxy, for example favouring abortion rights and strong controls on environmental pollution. At the same time, he is tough on crime, wanting to restore the death penalty and impose much tighter prisoner parole guidelines.

Some analysts argue that all this makes the 46-year-old governor an example of a new type of politician – drawn from, and appealing to, the "baby boom" generation – who cuts across traditional ideologies.

Certainly, some of the "entrepreneurial government" ideas he is pursuing are also being tried by Democratic governors, including Mr Bill Clinton, the party's likely presidential nominee, in Arkansas. Mr Weld, however, is taking these ideas further than most other states, with initiatives which include:

- Slimming the bureaucracy and improving its efficiency by reducing bottlenecks, for example by speeding up the issuing of permits for hazardous waste disposal. He is also trying to *bring rocketing medical aid costs under* control, one of the most difficult tasks facing any state government.

In his 1993 budget he is also trying to shift the focus of debate from "inputs" – how much money each department receives – to "outputs" or just what services they will provide with the funds. For example, one target for the Registry of Motor Vehicles is to cut the average wait for a drivers licence to 25 minutes.

- Contracting out services previously performed by government agencies to the private sector. For example, he has closed or consolidated nine under-used hospitals and put their patients in private sector care. He has put the maintenance of part of the highway system out to bidding and wants to privatise the processing of child support cheques.
- He is considering selling off two large state assets to private owners – Boston's Logan Airport and the Massachusetts Turnpike. Studies have suggested the former could be worth $786m and the latter $944m. However, selling either would involve some serious administrative difficulties, and it is not clear that the governor has the political will to pursue this.

For one thing, his first priority is to form a regional authority which would develop coherent transport policies. For another, he insists: "I don't have any bias in favour of privatisation. I dont want to privatise anything unless it works, unless we're going to get a more efficient operation.

"You bear the burden of proving citizens are going to get a superior service for the same price, or same service at a lower price."

Critics point out that his budget balancing has been helped by the first stirrings of a regional economic revival, as well as by the tax increases pushed through by the Dukakis regime.

Consumer confidence in New England is up, the unemployment rate is edging down, and the slightly better mood was underlined recently when one of the region's largest financial institutions, Bank of Boston, pledged to ease a credit crunch by making $3bn available for new business loans.

Not everything has gone Mr Weld's way. Under pressure from the the Democratic-controlled legislature, which has been surprisingly accommodating to most of his proposals, he has shelved some of his most draconian welfare measures and done an apparent about-face on cuts in education spending.

Critics also argue that his reforms are less substantive than his reputation suggests, and point out that Massachusetts remains one of the highest welfare spending states in the US.

William Weld: has managed to control run-away budget

US justices back forced extradition of suspects

By Jurek Martin in Washington

THE US Supreme Court yesterday ruled that the government was entitled to kidnap from a foreign country those wanted for prosecution by American justice.

By a six-to-three margin and over a blistering dissenting opinion, Mr William Rehnquist, the chief justice, found that the US government had not broken the terms of an extradition treaty with Mexico by arranging for the forcible extradition in 1990 of a Mexican doctor suspected of involvement in the murder of two American narcotics agents in 1985.

He ruled that it was up to the Bush administration, and not the federal courts, to decide if the doctor should be returned home, as Mexico has requested. Lower federal courts had ruled in the doctor's favour, prompting the administration's appeal.

Mr Rehnquist conceded that the kidnapping itself might have been "in violation of general international law principles," but would not be judicially reversed because it had not broken terms of the 1980 extradition treaty with Mexico. The US government had never asked Mexico to extradite the doctor.

Justice John Paul Stevens, joined by justices Harry Blackmun and Sandra Day O'Connor, wrote: "I suspect most courts in the civilised world will be deeply disturbed by the monstrous decision the court announces today." He added: "Every nation that has an interest in preserving the rule of law is affected, directly or indirectly, by a ruling of this character."

The torture and murder in 1985 of the American narcotics agent and his pilot had soured US-Mexican relations at a time when the US was becoming increasingly concerned at the flood of drugs from Mexico. The administration had offered a reward for the capture of the doctor and subsequently allowed the kidnappers to remain in the US.

Failed savings and loan group's officials in $1.5bn lawsuit

By Alan Friedman in New York

THE US government has filed the biggest lawsuit to date against the officers and associates of a failed savings and loan institution – a $1.5bn (£820m) legal action charging former officials of the Arizona-based Western Savings and Loan with civil fraud and racketeering.

The lawsuit was filed at the weekend by the Resolution Trust Corporation (RTC), the federal agency responsible for disposing of assets of failed savings and loan groups.

The RTC, in an attempt to recover damages, has over the past year filed more than 100 claims against former savings and loan officials across the US.

The legal action, which is bigger than the well-publicised $1.1bn US government lawsuit filed in 1989 against Mr Charles Keating's Lincoln Savings of California, came just minutes before the statute of limitations was set to run out at midnight on Saturday.

Phoenix-based Western Savings failed and was seized by federal regulators in June 1989. The institution's demise is expected to cost US taxpayers about $1.7bn, whereas the failure of Lincoln Savings is likely to cost about $2bn.

Among those named in the RTC lawsuit are Mr John Driggs, Western's former chairman and the scion of a politically prominent Arizona family that founded the group in 1929. The suit named several borrowers as well as a Phoenix law firm that acted for Western.

The charges contained in the 200-page lawsuit include fraud, racketeering, gross negligence, breach of fiduciary duty and breach of contract.

After its seizure by the federal government, Western Savings was sold off by the RTC in pieces. Two years ago the San Francisco-based Bank of America acquired Western's deposit base of about $3.4bn.

Japanese bankruptcy debt rises

By Robert Thomson in Tokyo

OUTSTANDING debt from Japan's corporate bankruptcies in May rose 29.1 per cent from the same month last year to Y571.5bn (£2.5bn) as more companies were brought down by stock speculation and fewer failed because of the country's labour shortage.

Teikoku Data Bank, the credit research agency, said the amount of debt was down 25.4 per cent from April, though the number of cases rose by 4.2 per cent. The largest failure was Hachidai, a property developer, which had outstanding debts of Y114bn.

The labour shortage has been a prime cause of bankruptcy among smaller companies, but the slowing of the domestic economy has made the problem less severe. Teikoku said 40 companies blamed their failure in May on a lack of workers, the lowest figure since November 1990.

However, slowing retail sales has resulted in an increase in bankruptcies of retailers, of which 73 failed in May, up from 44 in April.

One of the most notable failures was that of Lec, a maker of bathroom products, which was the first Tokyo listed company to file for protection since 1986. Lec had outstanding debts of Y25bn, and was apparently a victim of stock speculation, as its core business was profitable.

The failure of Lec has raised questions about the willingness and ability of Japanese banks to support all of their troubled clients.

Economy slows enough to fall off its cycle

Stefan Wagstyl on fears that the lengthening downturn is more serious than just a cyclical matter

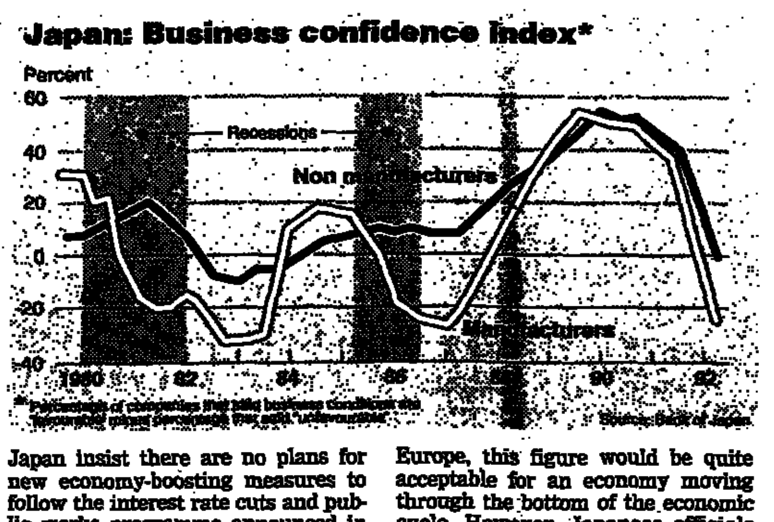
STOCK MARKET investors have delivered a damning judgment on the current state of the Japanese economy.

On Friday, the Nikkei index fell 325 points after the publication of the Bank of Japan's latest report on economic trends, which showed business confidence at its lowest level for five years. Yesterday, the Nikkei tumbled a further 430 points to 16,953, below the psychologically important 17,000 level.

The economy is entering a critical period, as a slowdown which started early in 1991 reaches and exceeds 15-18 months, the average duration of post-war downturns.

The stock market's latest plunge will increase the calls for government action to halt the slide. Businessmen, led by Mr Gaishi Hiraiwa, the chairman of the Keidanren, the employers' federation, want to see further cuts in interest rates and an increase in spending on public works. So do financiers, concerned about the debilitating impact of slow economic growth on share and land prices. So do the US and the EC which are convinced that the slowdown in Japan's domestic economy is fuelling a rapid expansion in the country's trade surplus.

Pressure from all these quarters will come to a head in the next few weeks as Mr Kiichi Miyazawa, the Japanese prime minister, prepares for the summit of the Group of Seven leading industrialised countries in Munich early next month and for parliamentary elections in Japan at the end of July.



The government and the Bank of Japan insist there are no plans for new economy-boosting measures to follow the interest rate cuts and public works programme announced in April. But there is a growing belief in Tokyo that the authorities are preparing for action. "Unofficial discussions have already started," says Mr Yoshihisa Kitai, chief economist at the Long Term Credit Bank.

The government's official view is that the economy is going through nothing more serious than a cyclical slowdown, albeit one that is particularly severe. The Economic Planning Agency believes a recovery will start in the autumn and stands by a forecast of economic growth of 3.5 per cent for the current financial year ending March 1993.

But private sector economists believe the target is unattainable. Many have cut their forecasts to 2 per cent and below. For the US or Europe, this figure would be quite acceptable for an economy moving through the bottom of the economic cycle. However, Japanese officials and businessmen, accustomed to high-speed growth, regard anything below 3 per cent as a recession.

The economic data offers plenty of evidence in support of those calling for immediate government action. But it is not conclusive – there is enough positive data to give the authorities good grounds for waiting a little longer.

Last week's Bank of Japan report was, on the face of it, gloomy – it showed that the index of confidence among manufacturers plunged from minus-5 per cent in February to minus-24 per cent in May. For non-manufacturers the index fell from 17 per cent to 1 per cent. The report also forecast a 2.1 per cent decline in capital investment in the financial year, including an 8.9 per cent fall in investment in manufacturing.

But the survey also found the odd chink of light – including hints of a recovery in business sentiment in the autumn. Government officials were quick to seize on this point as possible indication of a pick-up in the economy later this year. The EPA said: "There is a bottoming-out of sentiment. Businessmen don't see things getting any worse."

Government officials will also take comfort from a report to be published today which is expected to show GNP expanded by an annualised rate of around 4 per cent in the first quarter of 1992. This is much better than had been expected a few months ago – an indication that authorities have been right in emphasising the resilience of the Japanese economy.

However, GNP data from the first quarter is a better guide to the past than to the future. Growth in the second quarter is likely to have been much slower.

For example, there is no sign of a recovery in machinery orders, an indicator of likely future trends in capital investment. The latest figure, for April, showed a 20.9 per cent decline from the same month in 1991. Similarly, despite steep cuts in industrial production, companies are failing to reduce their inventories of unsold goods as fast as they planned.

There is good news from some corners of the economy – notably a modest recovery in housebuilding – but it is outweighed by the bad.

Furthermore, a mountain of debt from the 1980s overshadows the economy. Figures published yesterday show how the burden of servicing loans taken out for speculative stock and property investments in the 1980s is driving more and more companies into bankruptcy. Banks and financial institutions, dragged down with estimated bad and doubtful debts of more than Y40,000bn, (£172bn) could find it hard to finance new loans in future.

It is in this context that the debate over possible action to boost the economy is gathering pace. The Bank of Japan's position is that it is still monitoring the effect of the last cut in the official discount rate in April, when it was reduced by 0.75 percentage points to 3.75 per cent. For its part, the ministry of finance is resisting calls for extra measures to follow the package announced in April when some public works spending planned for the second half of the fiscal year was brought forward to the first six months.

However, finance ministry officials acknowledge that some extra spending will be needed to fill the gap created in the public works programme in the second half of the year. The question is how much. Officials opposed to increases in public borrowing argue that as little as Y1,000bn extra should be spent. At the other extreme, leading politicians in the ruling Liberal Democratic party want a supplementary budget of Y7,000bn to Y8,000bn.

Given that the financial year is less than three months old, the authorities may be tempted to wait in the hope of an autumn recovery.

Lebanese militia frees last western hostages

By Lara Marlowe in Beirut

THE LAST two western hostages in Lebanon – the Germans Heinrich Struebig and Thomas Kemptner – were freed last night after being held for three years. Their release closed a 10-year chapter in Lebanese history when few foreigners ventured into the once cosmopolitan country for fear of being kidnapped.

The continued detention of Mr Struebig, 51 and Mr Kemptner, 30, deprived Lebanon of hundreds of millions of dollars in German and European Community reconstruction aid in recent months.

The Beirut office of the Iranian news agency, Irna, announced that the two aid workers were handed over to representatives of the German and Lebanese governments. Like other western hostages, they were then driven to Damascus where a German envoy had been sent to meet them.

Sources involved in the long negotiations said the German government refused to pay ransom for the hostages or even discuss the possibility of liberating Mohammed and Abbas Hamadi, the two Shia Moslem Lebanese brothers whose freedom was demanded by the kidnappers. The men are in jail in Germany for murder and kidnapping.

In recent months, the governments of Lebanon, Iran and Syria exerted pressure on Mr Abdul-Hadi Hamadi, the security chief of the pro-Iranian Hizbollah militia, who was responsible for the Germans' abduction. He is the brother of Mohammed and Abbas Hamadi.

Last night's release marked the first time that the Lebanese government was directly involved in the liberation of western hostages. Lebanon desperately needs reconstruction aid blocked by Germany pending the release, and President Elias Hrawi's government in February established a special commission to work for the Germans' freedom.

A Lebanese delegation travelled to Tehran to win Iranian support and Mr Ali Akbar Velayati, the Iranian foreign minister, made his first official visit to Beirut last week. His meetings with government and Hizbollah officials are believed to have been decisive in final arrangements for the Germans' release.

Iran – whose principal western trade partner is Germany – sought to eliminate an impediment in trade relations and achieve greater acceptance in the west.

Like Lebanon and Iran, Syria stood to gain a degree of rehabilitation in western eyes by helping to end the hostage saga.

Mr Giandomenico Picco, the United Nations envoy who engineered the liberation of nine British and American hostages last year, also assisted in the negotiations, shuttling between New York, Bonn and the Middle East.

Mr Picco arrived in Damascus at the weekend to deal with a last minute hitch and to greet the newly-freed Germans. The kidnappers had wanted to release one hostage now, the other later.

Security sources in Lebanon claimed the Germans, unlike other hostages, had sympathised with their captors' motives.

S Africans plan mass stoppage in effort to break talks deadlock

By Philip Gawith in Johannesburg

MILLIONS of South Africans will stay away from work today to mark the anniversary of the 1976 Soweto uprising and to observe the start of an African National Congress campaign of mass action aimed at breaking a deadlock in constitutional talks.

The country yesterday prepared itself for an extended period of disruption with the ANC and its allies intent on pursuing mass action and no evidence of the government being prepared to bow to their demands.

The ANC believes that the government is stalling in negotiations at the Convention for a Democratic South Africa (Codesa), the national negotiating forum, and that mass action is necessary to force it to quicken the process.

Codesa failed last month to agree on the details of a constitution-making body. Although this subject was yesterday returned to at Codesa, no breakthrough is expected until progress has been made in bilateral meetings between the government and the ANC.

The mass action has been widely denounced by the ANC's political opponents, particularly the government, amid fears that the stoppage will exacerbate the violence.

In language reminiscent of the darkest days of the state of emergency in the 1980s, Mr Hernus Kriel, law and order minister, yesterday told the Afrikaans newspaper Beeld that if mass action was the way in which the ANC sought to support negotiations, the government would have to look again at continuing the negotiations process.

He said there was a possibility of special legislation going before parliament this week to assist in countering mass action, while police and army forces are on standby. "This government will not let itself be threatened by mass action to hand over power in the country to the ANC," he said.

The business community has also been been critical of the ANC, saying that the economy, in deep recession and with unemployment running at 40 per cent, can ill afford a period of sustained disruption.

Mr Sam Shilowa, assistant general secretary of Cosatu, the union grouping closely allied to the ANC, yesterday outlined a four-phase programme of action. The first phase will be at the regional level, with protests already under way by municipal and health workers, and further protests planned.

The second phase will run for the whole of July if the government has not by the end of this month committed itself to firm time-frames. Next would follow a general strike while the final phase, dubbed "Exitgate," envisages the existing government resigning and preparations commencing for new elections.

Mr Shilowa said: "Mass action will only end when a democratically elected constituent assembly is in place."

Thailand will urge investors to return

By Victor Mallet in Bangkok

THAILAND'S Board of Investment (BoI) yesterday acknowledged that new foreign investment would be severely curtailed by last month's political violence and said it was planning a campaign in conjunction with the private sector to restore international confidence in the country.

Mr Staporn Kavitanon, BoI secretary general, said many existing foreign-funded projects had advanced beyond the point of no return, but potential newcomers to Thailand were likely to have second thoughts after the events in May, in which troops shot dead 50 or more pro-democracy demonstrators in Bangkok.

"One has to admit that the incident now has really frightened investors who've never known about Thailand before," he told journalists. "If you're talking about the first-time outlay of funds – forget it." He said the BoI would co-operate with leading companies such as Siam Cement to raise $3m to $4m for a public relations campaign which would express faith in Thailand's future.

Mr Staporn's efforts to extract money from the government and reassure foreign investors should both be made easier by the appointment of Mr Anand Panyarachun as prime minister last week. Mr Staporn is close to Mr Anand, and the premier's economic reforms were generally praised by the business community during his previous administration between February 1991 and March this year.

Mr Anand, however, expects to be in office only until elections are held in about four months, and fresh investment was already falling before the violence because of concern about Thailand's overloaded transport networks, a shortage of skilled workers and other problems.

Mr Staporn said even in "normal" times it would take a year to recover from the sort of trouble experienced by Thailand this year, but Japan's financial difficulties, Germany's preoccupation with eastern Europe and the weakness of western economies made the foreign investment outlook even worse.

Papua New Guinea votes

By Kevin Brown in Sydney

THE 2.5m voters of Papua New Guinea (PNG) are voting this week in an election which is being watched closely by the international resources companies which form the backbone of the country's economy.

A record 1,653 candidates are contesting 109 seats in the unicameral parliament in the fourth election since independence in 1975.

Mr Rabbie Namaliu, prime minister, says he is confident voters will prefer his six-party coalition government, led by the Pangu party, to its main opposition, a four-party alliance led by Mr Paias Wingti.

However, the likely outcome is unclear because of the number of candidates and parties and a tradition of voting against sitting MPs which could cause the defeat of up to 60 per cent of incumbents.

The resources industry has emerged as an important issue in the campaign because of discontent in some areas about land rights, royalty payments, and environmental controls.

Israelis ponder limited choice as poll nears

Despite the election, there is rapport between Rabin and Shamir, writes Hugh Carnegy

WHEN Israel goes to the polls a week today, they will face a choice for prime minister between two men whose combined age is not far off 150, who have little natural affinity for the business of politics and whose respective parties harbour significant dissent over their leadership.

One party – Labour – has made its septuagenarian, Mr Yitzhak Rabin, the main focus of its campaign to unseat the ruling Likud party which it accuses of squandering a priceless opportunity for Israel through a foot-dragging approach to the Middle East peace negotiations launched last October in Madrid.

Likud has by contrast given the lowest possible profile to Mr Yitzhak Shamir, party leader since 1983, prime minister since 1987 and now 76 years of age, in its effort to extend a 15-year run in government.

Tonight Mr Rabin and Mr Shamir meet in their only television debate of the campaign. It will afford voters the opportunity to judge whether the two offer genuinely divergent paths for the country or whether their own preferred outcome to the election would be a coalition with each other.

When Labour chose Mr Rabin to replace Mr Shimon Peres as its leader in February, it looked like a case of "back to the future" for the party. Mr Rabin had been party leader and prime minister more than 15 years previously.

He did not shine as prime minister and resigned over a minor financial scandal when his wife was revealed to hold illegal bank accounts in the US. He is a plodding orator who, like Mr Shamir, looks distinctly uncomfortable on the campaign trail. With a week to go to polling, he is already flushed and exhausted, his voice cracked and nagged by a smoker's cough. Both he and the prime minister must be glad that election broadcast rules forbid news coverage of their rallies and speeches.

Young Israelis in front of posters of the ultra-nationalistic "Torah and Land" party of Rabbi Moshe Levinger. The party attracts mainly settlers in the occupied territories

But Mr Rabin is trading on his genuine popularity as a former military hero and uncompromising defence minister. As the Labour party has hammered home over this month's 25th anniversary celebrations, he was chief of staff during the 1967 Six Day War. His whole election pitch is based on winning over Likud voters who traditionally regard Labour as too soft on security issues and too ready to make concessions in peace talks.

Mr Rabin undoubtedly differs sharply from Mr Shamir in his belief that Israel must give up some of the occupied territories captured in 1967 in exchange for peace. But in his campaign, this is hardly mentioned.

In the town of Shelomi near the Lebanese border recently, Mr Rabin was hosted at a "house call" by a family of former Likud supporters who are now backing Labour. Mr Rabin spent most of his address to a 150-strong crowd implying that it was he, not Mr Shamir and his colleagues in the Likud, who was more in the tradition of Mr Menachem Begin, the hardline Likud prime minister and darling of the party who died earlier this year.

"It is the Likud that has deserted you, not you that are deserting the Likud when you vote for us," said Mr Rabin.

The Likud rebuttal is that, far from stamping his authority on Labour, Mr Rabin's leadership is a front behind which the party's "doves" are hiding. Supporters of a more radical approach to the peace process than Mr Rabin occupy a string of top positions in the party. A vote for Rabin, goes the Likud message in their nightly television broadcasts, is a vote for capitulation to the PLO.

Likud's problem is the lack of a figurehead to rise above its chronic internal squabbles and overcome an image of corruption and economic incompetence born of having been so long in office. Nobody accuses Mr Shamir of being anything but a tough man of principle. But he lacks utterly the charisma of Mr Begin that Likud needs to inspire its increasingly cynical supporters.

At Shamir rallies, when typically the prime minister he shakes a few hands then disappears by helicopter as fast as he can, pictures of Mr Begin are more prominent than his own, particularly among the majority Sephardim (Oriental Jews) who form such a vital segment of Likud support.

"The Sephardim looked for a father figure and found him in Begin. Shamir is a leader, but he's not a father figure," says Mr Shaul Amor, a senior Likud MP and mayor of the largely Sephardi Galilee town of Migdal Haemek.

Mr Amor thinks Labour will have the edge over Likud next week. If the gap is as much as eight seats, as the polls have suggested, Mr Rabin will be in a powerful position. But Mr Amor doubts a swing sufficient to allow Mr Rabin to form a majority coalition with Labour's small-party allies. Equally, he doubts Mr Shamir could form a workable coalition with extreme right-wing parties opposed to the peace talks which, he says, "the majority of Likud voters really, really want."

He therefore attaches great significance to the rapport that exists between Mr Rabin and Mr Shamir. It was they who together formulated the 1989 Likud-Labour peace plan designed to set a process in motion without compromising their different ideologies. "Shamir and Rabin always got along," says Mr Amor. "I assume there is going to be a Rabin-Shamir government."

ILO ALARMED AT UNEMPLOYMENT IN WEST BANK AND GAZA

By Frances Williams in Geneva

UNEMPLOYMENT and underemployment in the West Bank and Gaza Strip have reached "alarming proportions" and the general economic situation has deteriorated markedly since the Gulf War early last year, according to a report by the International Labour Organisation (ILO).

Unemployment in the West Bank is officially estimated to have risen to more than 10 per cent by end-1991 from 3.6 per cent a year earlier.

But the United Nations body says unofficial estimates put unemployment in the occupied territories at anywhere between 25 and 40 per cent of the 320,000-strong labour force.

The report, compiled before the latest clampdown in Gaza, amounts to a scathing indictment of Israel's economic exploitation of the territories to its own advantage, from the destruction of Arab lands and property to make way for Jewish settlements to employment of Palestinians as cheap labour and restrictions on Palestinian economic development. Per capita incomes in the occupied Arab lands are only one-fifth Israeli levels.

Over 120,000 Palestinian workers – more than one third of the labour force in the occupied territories – commute to jobs in Israel, mostly in construction. All are employed on a daily basis, without job security or the social benefits enjoyed by Israeli workers, the ILO points out. During the Gulf war, many Palestinian workers, some of long standing, were summarily dismissed, often without compensation and sometimes without the wages due to them.

Report of the ILO director-general on the situation of workers of the occupied Arab territories. ILO, Ch-1211 Geneva 22, Switzerland. SFr12.50

China's central bank opens London office

By Alexander Nicoll, Asia Editor

LI GUIXIAN, governor of the People's Bank of China, today opens a representative office in London, the central bank's first outside China.

The office is a sign of a more outward-looking approach from the Chinese authorities as they proceed with "open door" economic reforms. The Bank of China, a state-owned commercial bank, already has a London operation and opens a new building in the City this week.

As well as being an observation point for European economic developments, the central bank's office could be useful in the management of China's rapidly growing foreign exchange reserves, which exceed $42bn.

As part of the reforms, the People's Bank was designated the central bank in 1984. It oversees a banking system still in great need of restructuring, partly because much lending is directed to lossmaking state-owned industries at subsidised interest rates.

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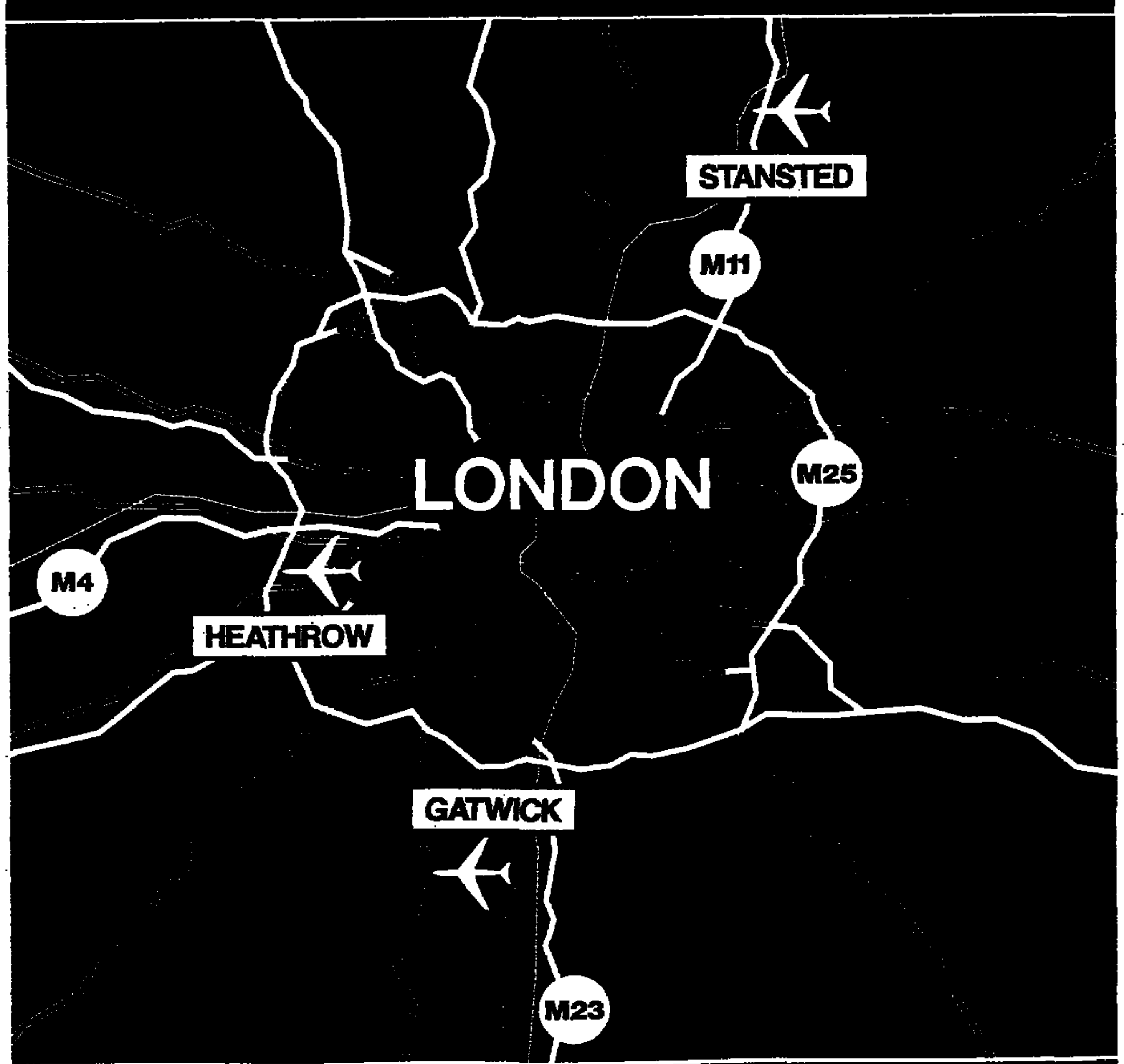

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Sun Alliance to boost ties with Chinese insurers

By Richard Lapper

SUN ALLIANCE, the UK's biggest insurance company, is to strengthen its ties with China's People's Insurance Company of China, as part of efforts to raise its profile in the fast-growing Far East insurance markets.

Representatives of the two companies yesterday signed an "understanding" intended to pave the way for a formal co-operation agreement by October of this year.

Mr Tony Barron, director of Sun Alliance (Overseas), said the accord was "a long-term strategic move". The group, with an existing Hong Kong subsidiary, eventually hopes to insure business directly in the potentially huge Chinese market. "When the day comes, we feel we will be ideally placed. We are building relationships and getting to know people."

Sun Alliance has provided training facilities for PICC and will provide technical and other support for PICC's operations in China and the UK, where the China Insurance Office provides a service to the Chinese community. World-wide co-operation is likely to extend to underwriting and specialist services, and the exchange of technical and market information.

The British group has marked the Far East, Europe and North America as areas for expansion. In Asia, it has forged links with Lucky Insurance Company in South Korea and Taisho in Japan. In Europe, it has signed an agreement with Helvetia of Switzerland. It also has less formalised links with Vesta group in Norway and Atlantica in Sweden.

PICC said the decision to co-operate would "help our company provide clients round the world with the highest level of service and expertise".

Taiwan wants air links with 19 nations by 1997

TAIWAN will try to establish air links with 19 countries over the next five years, Mr Eugene Chien, the country's communications minister, said yesterday, Reuter reports from Taipei.

"Our airlines will fly to 45 destinations and more than 40 foreign airlines will fly to our country in five years' time," Mr Chien told a meeting of senior government officials, including President Lee Teng-hui and Premier Hau Pei-tsun.

Taiwan's three international airlines fly to 26 destinations and 24 foreign airlines have landing rights on the island. Taiwan has been hampered in setting up air links with other countries because China claims sovereignty over the island and has sought to isolate it diplomatically.

Only 29 countries have formal relations with Taiwan and talks to open air links with other countries have been slowed by pressure from Beijing, Taiwanese officials say.

Taiwan set up air links with Australia and New Zealand last year. But China Airlines, China's flag carrier, suspended services between Taipei and Ho Chi Minh City last year, after restoring air links broken off in 1975. Hanoi sought the suspension, apparently after pressure from Beijing.

In April, Taiwan sent a delegation to Europe to try to set up air links with Britain, France, Germany and Italy. Taiwan and Britain will sign a pact next month to set up air links, Taiwan's mass-circulation United Daily News said. Taiwan's second international airline, EVA Airways, will fly the Taipei-London route in August, the daily added.

Communications ministry and airline officials declined comment, saying the issue was politically sensitive because of Taipei's rivalry with China.

Brussels probes CD 'dumping' by Japanese

By Michiyo Nakamoto

SEVERAL Japanese electronics manufacturers are facing an investigation by the European Commission into allegations that they have been dumping compact disc (CD) players in European markets.

European consumer electronics makers, including Philips and Grundig, have complained to the Commission that the dumping has been going on throughout Europe and anti-dumping duties have been circumvented by routing CD player imports through Singapore, Taiwan and Malaysia.

The CD players being dumped into European markets were 40 per cent cheaper than comparable models shipped from Japan, according to a Philips representative.

One Japanese manufacturer expressed surprise at the allegations. It claimed Philips itself had shown a CD player at a trade show in April priced at £99, which it said was 29 per cent cheaper than its cheapest model.

"We were flabbergasted. I think it is an example of a non-competitive industry unable to compete and therefore fighting in another way," the manufacturer declared.

The European market for CD players has been dominated by Japanese makers. Rankings in the home audio market in Europe by BIS Strategic Decisions, the market consultancy, place Sony at the top followed by Panasonic/Technics and Pioneer, with Philips fourth.

Nigeria pact for US gas sales

Nigeria signed an agreement yesterday to sell Distrigas of the US 700m cu metres of liquefied natural gas (LNG) a year from 1997, Reuter reports from Lagos. It was the fourth and final sales agreement for Nigeria's major LNG project, costing an estimated $4bn (£2.1bn) in the oil-rich Niger Delta region of Rivers State.

Slovak steelmakers find success has a price

A huge rise in exports to the EC is subject of 'dumping' talks, writes Anthony Robinson

SENIOR officials from the Slovak steel company Vychodoslovenske Zelezarny (VSZ) meet leaders of Eurofer, the European steel producers' association, this week to fend off threats of anti-dumping penalties.

This follows a cry of alarm from French, Italian and other steel producers over what Eurofer claims is a 126 per cent rise in Czechoslovak steel exports to western Europe over the first four months of this year. According to Czechoslovak trade figures steel exports to the EC amounted to 346,000 tonnes over the first quarter of 1992, as the three main steel producers sought to reverse two years of sharply reduced output. Last year raw steel production fell to 12.13m tonnes from 14.9m tonnes in 1990 and output of rolled products dropped 15.7 per cent to 9.27m tonnes from 11m tonnes in 1990.

Much of the increase in rolled steel exports to the EC, from a low base, has come from this huge integrated steel plant in the far east of Slovakia, less than 50km from what is now the border with an independent Ukraine.

Mr Zoltan Berghauer, chairman of the 100-per-cent state-owned joint stock company (which is now being privatised through the Czechoslovak mass privatisation voucher programme) says that higher exports are allowed under the association agreements signed between the EC and the central European states of Czechoslovakia, Hungary and Poland last year.

But he is anxious to reach a compromise with Eurofer. "I understand their fears of being flooded and I think we'll make an agreement," he says of the talks on Thursday with Mr Francis Mer, chairman of Usinor Sacilor, the French steel company, who will head the Eurofer delegation.

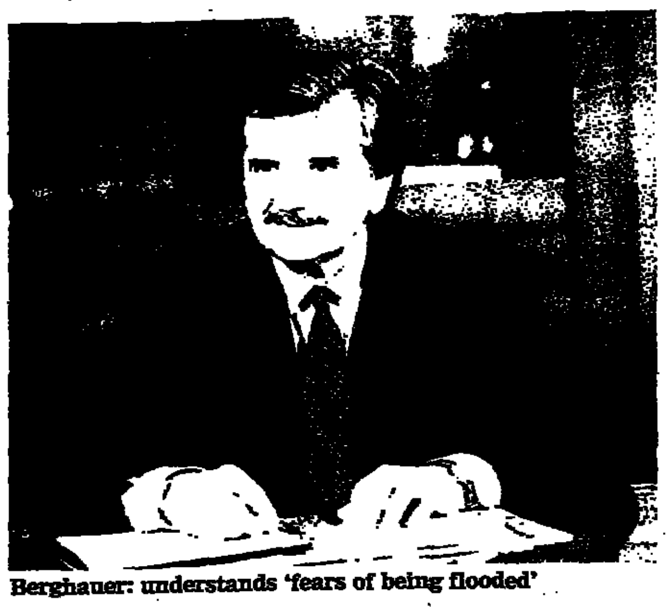
After two years of profound managerial and other changes at VSZ, however, he is also sure that the Slovak company's prices genuinely reflect lower costs and recent productivity gains.

"We have two main cost advantages," says Mr Mer. First, they import iron pellets cheaply from Krivoi Rog in the Ukraine via a 1,100km-long, Russian-gauge railway while coal comes 350km by rail from Ostrava in northern Moravia. Neither has to be expensively trans-shipped, and both raw materials are mechanically unloaded on arrival.

Second, wage costs are only 5-6 per cent of total costs, compared with between 20-28 per cent in western Europe.

Employment in steel making has fallen from 19,800 to 11,000 men over the last two years while a managerial revolution has transformed the old pyramid-shaped command structure. Instead of 1,200 managers and 7-8 levels of management in 1989, the company now has a 70-man top management complement, he added.

The company is now organised like a western holding with only 3-4 levels of management, over 50 subsidiaries operating as individual profit centres and a lot of sub-contracting to newly privatised companies.



Berghauer: understands 'fears of being flooded'

Last year the company made a profit of 4.5bn koruna (£85m) on turnover of 50bn koruna "according to accounts audited by Ernst and Young", adds Mr Berghauer, who was chief metallurgist of the plant throughout the 1980s and became chairman in 1990.

"Our quality levels are up to western standards – and so are our manning levels," said Mr Stefan Link, adviser to the chairman, during a tour of the highly-automated plant.

Costs will be further reduced next year when continuous casting fully replaces the traditional rolling mills which still make 50 per cent of the 3.2m tonnes of rolled steel produced annually.

Between 60 and 65 per cent of output is exported. The collapse of the former Soviet market, and sharply reduced steel demand from Slovakia's own heavy armaments industry, forced the company to organise its own sales and marketing organisation and search for new markets in the west.

The company already has a joint venture with Austria's Voest-Alpine and a metallurgical ceramics joint venture with Intocast of Germany. It is now discussing new joint ventures with Hoogovens of Holland to modernise tin sheet production and another with Ilva of Italy to produce special "dynamo steel". A subsidiary has formed a joint venture with Wimpey of the UK to modernise Kosice airport.

At a time when unemployment is rising sharply in many Slovak companies, VSZ has pushed through a diversification programme which has created several thousand new jobs and raised total group employment to 32,000, including many of the 8,800 shed from steel making.

Over 15,000 are employed in a wide array of mechanical engineering companies, many of which started life as suppliers to the steel making complex. They produce a wide range of products from artillery ammunition to bridge cranes, including boilers, air conditioning plant, domestic radiators, fuel pumps, castings of all kinds and cutlery.

Much of this production is exported. Sectors such as ceramic refractory materials, formerly produced mainly for use within VSZ itself, are being modernised and expanded for wider sale while vehicle component production is also being stepped up to satisfy the fast growing Czech and Slovak car industries. Volkswagen is investing heavily in Skoda and is assembling Passat models at BAZ in Bratislava.

These ancillary operations consume over 170,000 tonnes of steel from the core steelmaking business. But exports to the west remain crucial to the prosperity of Slovakia's biggest steel and engineering complex.

Air France discounts US flights

AIR FRANCE is to offer discounts of 25-35 per cent on flights from the US to Paris this summer, in line with last week's price cuts by US-based Delta Airlines, it said yesterday, AP reports from Paris.

The airline said the discounts, available from all the company's US gateways, cover Concorde, first, business, and full economy round-trip fares.

The only exceptions are the airline's first-class services from Houston and Los Angeles. The new prices are effective immediately for departures until September 30, 1992, while returns must be completed by October 14. Maximum stay is two weeks.

Air France said the Delta price cut "is a logical consequence of the current situation of over-capacity existing on the North Atlantic this summer".

Earlier this year, Air France feuded with US carriers over how much capacity the latter could add to their US-France flights this summer. The US carriers had demanded an increase of over 40 per cent, while Air France wanted to limit the rise to 15. They compromised on 30 per cent.

The dispute prompted France to renounce a bilateral air traffic accord with the US in May. The countries officially have one year to conclude a new agreement, and some progress is hoped for by the end of this year.

Air France is expected to strike a final hotel agreement with Lufthansa of Germany by late 1992 or early 1993.

Russia paves way for Bonn to resume trade

MOSCOW has given state guarantees paving the way for Bonn to resume government export credits and revitalise trade between Germany and Russia, the economics ministry said yesterday, Reuter reports from Bonn.

A Bonn official said Russia had provided the long-awaited documents to allow the German government to grant its Hermes export guarantees. Trade between Russia and Germany has virtually stalled since January when Bonn put a DM5bn (£1.7bn) ceiling on export guarantees for the former Soviet Union. Moscow had earlier failed to give its guarantee to either Germany's State Reconstruction Bank or the German export credit organisation, saying this was against its constitution. Bonn's first export guarantee of the year for the former Soviet Union went to Ukraine in April.

UK cuts back nuclear forces at sea

By Daniel Green and Robert Mauthner

BRITAIN is to scrap its seaborne tactical nuclear weapons, Mr Malcolm Rifkind, UK defence secretary, said yesterday. Royal Navy ships and carrier-borne aircraft and Royal Air Force maritime patrol aircraft will no longer carry bombs and nuclear depth charges.

Britain's strategic nuclear deterrent of Polaris submarines, and their replacement, Trident, which are due to enter service in the mid-1990s, are untouched by the decision.

The RAF keeps its nuclear bombs on Tornado aircraft. Plans for a successor to the existing bomb are unaffected by yesterday's decision.

The announcement comes on the eve of a visit by Mr Boris Yeltsin, the Russian president, to Washington to discuss arms reductions as well as economic aid. Mr Rifkind said the timing of the announcement was not related to Mr Yeltsin's visit.

Before the break-up of the Soviet Union, Moscow periodically demanded that British and French strategic nuclear weapons be included in any further reductions in nuclear arms by the US and the Soviet Union. These demands were rejected repeatedly by the British and French governments. Less has been heard of this matter since the break-up of the Soviet Union. But there can be little doubt that yesterday's announcement by the government can only help London to resist further demands by the Russians.

The move means that the government has announced reductions in Britain's non-strategic nuclear defences of more than half since last September.

"This is a further indication that we live in a changed world," said Mr Rifkind. He said the cuts were not part of any treaty obligation. "It is a decision that we ourselves have taken."

The UK cuts affect more than the weapons. Training of crews and detailed certification of equipment will end. The UK-built weapons will be returned to the Atomic Weapons Establishment in Berkshire and dismantled. Those built in the US, deployed by the RAF, will be returned to the US.

Some of the weapons, carried on Lynx and Sea King helicopters, have not been deployed since last autumn, when Mr Tom King, Mr Rifkind's predecessor, said they would no longer be on Royal Navy ships "in normal circumstances".

The US-built bombs, deployed on RAF Nimrod surveillance aircraft, were not part of that announcement.

Scrapping the seaborne weapons is unlikely to result in short-term cost savings because of the increased workload in dismantling the weapons.

The decision follows a rethink by Nato last autumn on the balance of nuclear and conventional forces. At the time, it announced cuts in nuclear forces including the withdrawal of US nuclear depth charges from Nato maritime patrol aircraft.

Pensioners grasp lifeline in quest for Maxwell funds

John Willman examines the hopes pinned on new revelations

NEWS that the government had intelligence information suggesting the dishonesty of Mr Robert Maxwell before the collapse of his empire offers the Maxwell pensioners a lifeline in their bid for compensation.

Their chances of persuading the government to accept full responsibility for bailing out the Maxwell pension funds are increased if it can be proved that officials failed to act on information revealing Maxwell's questionable activities.

The response of the Maxwell Pensioners Action Group to yesterday's FT revelations was to call for a judicial inquiry to examine the affair.

The pensioners' best chance of compensation probably lies with Mr William Reid, the Parliamentary Ombudsman. It was the 1989 report of his predecessor Sir Anthony Barrowclough which unlocked government funds for the 18,000 investors who lost money when the Barlow Clowes investment group collapsed.

Sir Anthony found the Department of Trade and Industry guilty of "significant maladministration". He criticised "the lack of a sufficiently rigorous approach".

Announcing the payment in the House of Commons, Mr Nicholas Ridley, then trade and industry secretary, justified compensation by citing the interests of the "large number of investors, many of them elderly, [who] have suffered hardship".

There are clear similarities with the present case in the age of many Maxwell pensioners and the hardship they will suffer without compensation. But the pensioners will need to work hard to establish a case the ombudsman can consider, since the looting of the Maxwell pension funds took place after the introduction of the 1988 Financial Services Act.

That Act switched responsibility for policing the pension funds from the DTI to the Securities and Investments Board (Sib) and the Investment Management Regulatory Organisation (Imro), both of which are excluded from the jurisdiction of the ombudsman.

An ombudsman's investigation might also be triggered if it could be shown that the government had had information about Mr Maxwell's questionable activities – from the intelligence services, for example – and failed to pass it on to the regulatory authorities.

It would be hard to prove either of these faults without access to documents in government files. Yet under the UK's system of government, the relevant documents are not open to public inspection.

Hence the Maxwell pensioners' call for a judicial inquiry into the affair. Despite the prime minister's commitment to open government, the only way to cast more light on the proceedings of government in such cases is to appoint a judge to examine all relevant papers.

Offer to curb big electricity profits

By Juliet Sychrava

THE 12 regional electricity companies of England and Wales will not be allowed to make large profits at the expense of customers, the power watchdog Offer said yesterday.

In a statement timed to coincide with the beginning of the companies' results season, Professor Stephen Littlechild, the electricity regulator, said consumers were concerned about the average 40 per cent increase in profits expected from the 12.

City analysts said Offer's statement was simply a reiteration of its belief that companies must not reward shareholders at the expense of customers.

"There's nothing in it that causes me concern," said Mr John Harris, chairman and chief executive of East Midlands Electricity.

"Our price increases have been below the rate of inflation for the last 4 to 5 years," said Mr Ken Harvey, chairman of Norweb, the regional company reporting results tomorrow.

Professor Littlechild reassured customers that he would be ensure the companies were not making too much money, and were providing a good service.

These big increases will not be repeated next year, since prices only rose by about 2 per cent this April, the regulator said. Miss Penny Boys, deputy director of Offer, said the watchdog was more likely to tighten than relax the price formulae when it comes to review them in 1994 and 1995.

Offer is also likely to change the formulae to include a historical inflation adjustment, rather than a forecast.

East Midlands results, Page 22
Lex, Page 20

Kinnock quits European race

By Ralph Atkins

MR NEIL Kinnock, the Labour leader, last night pulled out of the contest for the presidency of the European Communities' Confederation of Socialist Parties because of a possible conflict with his party's stance on the Maastricht treaty.

He withdrew after consultations with other socialists meeting in Lisbon made clear the difficulties he would face if the confederation backed the treaty but Labour decided to vote against it in the UK.

Mr Kinnock said that, following the Danish referendum's rejection of the Maastricht treaty, it was "reasonable" for the party to try to change the treaty – particularly to try and include Britain in the social chapter.

"This might involve the Labour Party in delaying or opposing the Tory version of the Maastricht Treaty," he said, adding this could mean an inconsistency between his duties as president of the confederation and as a Labour MP.

Regulator takes tough stance on river use

By Richard Evans

WATER companies in England and Wales reacted angrily yesterday to a warning by the National Rivers Authority (NRA), the industry's environmental regulator, that they might be banned from extracting water from some rivers if they fail to reduce the volume taken voluntarily.

The threatened ban follows NRA frustration at the lack of voluntary agreements to curb water abstraction from 40 rivers where the drought has exacerbated low river levels.

The move could herald a series of confrontations between the NRA and the companies over the scale of water abstraction. If a ban is enforced the companies are likely to demand compensation for loss of supplies, which could amount to millions of pounds.

The top NRA target is Thames Water, the biggest of the 10 companies privatised 2½ years ago, because of the chronic shortage of water in parts of the River Darent in Kent, south-east England.

Thames has been given until September 1 to commit the company to varying its abstraction licences for the Darent to 70 per cent of the currently authorised 90m litres a day it is allowed to take.

Lord Crickhowell, chairman of the NRA, warned yesterday that the NRA may "act unilaterally to vary abstraction licences downwards or revoke them completely" if it cannot reach agreement with the water companies.

Thames Water Utilities said it was surprised by criticism of its strategy over the Darent, as for the last two years the company had voluntarily reduced its abstraction to 70 per cent of its entitlement.

"We have a very strong commitment to the river and the environment, but we also have a legal commitment to our customers," a spokesman said.

Negotiations are under way between the NRA and other water companies, including Wessex and Southern, to seek agreement on voluntarily reducing abstractions from low level rivers.

Going with the flow: levels of the River Darent have fallen following large-scale extraction *Photograph by Terry Kirk*

Hopes grow in Northern Ireland for political deal

By Ralph Atkins

A FLURRY of activity by diplomats, politicians and civil servants yesterday followed what may prove to have been a breakthrough in Northern Ireland politics.

Preparations are under way for Unionists to meet the Irish government for the first time since partition in the 1920s and plans are being laid for Britain and Ireland to start working on a replacement for the 1985 Anglo-Irish Agreement.

The worth of the deal, which Sir Patrick Mayhew, Northern Ireland secretary, struck with Ulster politicians just before midnight on Friday, is not yet clear.

Perhaps the biggest clues yesterday were optimism among government officials in London and Dublin and the lack of any breach in the vow of silence Sir Patrick forced on participants.

For seven weeks Unionists and nationalists have discussed proposals for devolution in Northern Ireland. This was "strand one". Little progress has been made but the agreement before talks began was that "within weeks" negotiations would turn to "strand two", when Ireland would enter to discuss relations between north and south Ireland.

Sir Patrick could have suspended the talks or forced a move to "strand two" with "strand one" in disarray. Lengthy deliberations followed.

Unionists, particularly the Rev Ian Paisley, leader of the Democratic Unionist Party, said strand one had to be completed. The nationalist Social Democratic and Labour Party argued that Northern Ireland's problems required addressing the "totality of relationships" and that a move to strand two would help solve strand one.

Under Sir Patrick's compromise strand two is not about to start but the proposed independent chairman – Sir Ninian Stephen, former governor general of Australia – has been invited by Ireland and Britain to convene a meeting to discuss a possible agenda for strand two.

Meanwhile, the British and Irish governments will, according to the official statement, meet, "to give preliminary consideration to the issues likely to arise" in the third, and final "strand". This will be on Anglo/Irish relations, principally the 1985 pact.

At the same time, work on strand one will continue.

Britain in brief

Treasury to seek bids for state debts

Securities houses are being approached by the Treasury to bid for parcels of government debt which remain with the privatised industries.

According to one US securities house, City institutions have been asked to look at ways of repackaging up to £5bn of debts owed to the government mainly by British Telecommunications and electricity distribution companies.

The transfer of these debts – incurred by the companies in the run up to privatisation – to a third party would release revenue for the Treasury that would otherwise have been repaid over almost 20 years. That would help ease the growing pressure on public sector finances as the recession drags on and government receipts remain low.

Sizewell reactor shut down

One of the two reactors at Sizewell A nuclear power station in Suffolk has been shut down following the failure of a fuel rod component. Nuclear Electric said the failure posed no threat to the safety of the Magnox reactor, which started generating power in 1966, but it could remain out of service for weeks or even months.

Power group to market gas

Southern Electric has become the latest regional electricity company to move into gas marketing, through a joint venture with Phillips Petroleum, the oil and gas company.

The partnership will initially buy gas by tender from British Gas, but eventually market gas from other sources, including the North Sea fields in which Phillips has an interest.

SE considers raising capital

The Stock Exchange is considering plans to raise capital.

Mr Peter Rawlins, chief executive, said the exchange wanted to spread the cost of financing the development of new technology more widely. The brokers and marketmakers who own the exchange are under financial pressure and are finding it difficult to pass on the costs of the exchange to their customers.

In the past year, the exchange spent £25m on Taurus, its long-delayed settlement system, bringing total spending so far to nearly £50m. It also plans an overhaul of the systems that support trading in its markets.

It is unlikely that the exchange would sell shares to investors with no direct interest in the exchange: with its declared aim of remaining a non-profit making institution, it could not pay a market rate of return to shareholders.

'Dream ticket' gains support

Mrs Margaret Beckett, front-running candidate for the opposition Labour party's deputy leadership, may win the post in the first ballot of the July 18 election, many of her opponents concede.

Results from 11 constituency parties across the country show the "dream ticket" – with Mr John Smith, as leader – as the likely outcome.

The claims provoked a vituperative response from Mr Bryan Gould, shadow environment secretary and candidate for both the leadership and deputy posts. Speaking at a rally in London, he clearly targeted Mrs Beckett and Mr John Prescott, his rivals for the deputy leadership, for failing to encourage the debate on Labour's future.

Lloyd's may share premises

Lloyd's of London is prepared to allow insurance companies to share its premises, paving the way for more links between it and the conventional market.

Discussions have already taken place between Mr Dick Hazell, deputy chairman of Lloyd's, and Anglo American, an independent London-based insurer, about a possible move.

Wimbledon ticket probe

The Office of Fair Trading confirmed yesterday that it was investigating a complaint about the sale of tickets for the Wimbledon tennis championships.

Mr Mike Burton, who runs a corporate hospitality company, complained to the European Commission that the All England Lawn Tennis and Croquet Club was operating a cartel and artificially forcing up the prices of debenture tickets for Wimbledon, while banning the resale of other tickets.

Debenture holders are guaranteed the most sought-after tickets. The tickets have a face value of £46, but Mr Burton says the club has bought tickets for up to £700 and resold them for as much as £890.

The All England Club yesterday made no comment on Mr Burton's allegations.

Private jail

Tenders from nine contractors to run Britain's first private jail for convicted prisoners have been invited by the government.

Blakenhurst prison near Redditch, central England, is due to open next spring and will take about 650 medium-risk inmates.

Deficit outstrips official estimates

By Peter Norman, Economics Correspondent

BRITAIN'S current account balance of payments deficit was much higher than previously estimated in the six months to the end of March because of a disappointing performance on the so-called invisible trade account.

The Central Statistical Office (CSO) yesterday revised upwards this year's first quarter current account deficit to £2.64bn from an estimated £2.17bn, while the deficit for the 1991 fourth quarter is now put at £1.42bn – more than twice the £642m figure published at the end of May.

The revisions mean last year's shortfall on the current account, which gives the UK's balance of trade in goods and invisibles such as services, dividend payments and certain transfer payments, was £5.2bn compared with £4.4bn previously. But last year's deficit remains the smallest since 1987.

CSO officials said the worse than expected deficit in the latest six months mainly reflected a sharp increase in UK transfers to the European Community in the first quarter of this year and a large downward revision by a British company of earnings attributed to a foreign subsidiary in the final quarter of 1991.

The Treasury put the blame for the poor figures on one-off factors. But Mr Gordon Brown, Labour's trade and industry spokesman, said they were "disastrous".

The outflow in the latest quarter mainly reflected a large outflow from UK banking transactions. Direct UK investment overseas rose sharply to £2.51bn in the quarter from £300m while foreign direct investment in Britain also rose to £4.38bn from £1.91bn. The picture on portfolio investment was more mixed, with UK portfolio investment overseas falling to £6.06bn in the latest quarter from £8.56bn previously while foreign portfolio investment in Britain increased to £5.14bn.

Sudanese refugee deported

By David Marsh, European Editor

A SUDANESE refugee at the centre of a tussle over European asylum procedures has been discreetly sent back to Germany by the British authorities.

Mr Ahmed Gazmalhaliq Abdulla, whose tortuous journey from Sudan and then around Europe has brought wide attention, was sent back to Germany on May 12, the Home Office confirmed.

This was after Mr Abdulla's lawyers, who claimed he faced the risk of persecution in Germany, failed to win permission for a court appeal to allow him to seek asylum in Britain.

Mr Abdulla, who had spent almost a year in an asylum-seekers' hostel in Germany, travelled to Britain at the end of last year after his hostel had been attacked several times by rightwing extremists during violence against immigrants in Germany last autumn.

The UK authorities refused Mr Abdulla's asylum request. But in January the Home Office gave him temporary approval to remain in Britain while lawyers prepared a case to back up his claim that he would be under threat in Germany.

By appearing to support the notion that immigrants faced the danger of racial persecution in Germany, the UK's decision raised considerable controversy in both Britain and Germany. If Britain had given the refugee a permanent home, it could have led to similar departures of immigrants from Germany to the UK.

This seems to have accounted for the government's rapid and discreet action to send Mr Abdulla back to Germany.

Mr Abdulla's lawyers claim the decision was taken in spite of patchy evidence that violence against foreigners is abating in Germany.

Figures for racial attacks in Germany show the number of cases, which totalled 2,427 last year, amounted to 809 in the first four months of this year – down by more than half from the final four months of last year.

Arise, King of Bulgaria

Maxwell craved international recognition. He conned presidents and bankers alike, pouring money into some of the newest, shakiest and nastiest governments. It was a fantasy world that led him to fraud. Bronwen Maddox reports

ON MAY 19, 1983, the Moscow streets were clear of snow after the long winter. Inside the Kremlin some of the most powerful men in the Soviet Union sat signing a document marked "secret".

One by one, the general-secretaries of the Central Committee – second in rank only to Soviet leader Yuri Andropov – solemnly scrawled their names on the closely-typed sheet of paper. They included Mikhail Gorbachev, then responsible for the party's agriculture policy, Konstantin Chernenko, who later succeeded Andropov as leader, and Nikolai Ryzhkov, later prime minister of the Soviet Union.

The paper declared that the Communist party had granted an honorary doctorate from Moscow State University to Robert Maxwell for his distinction as a "well-known specialist in the field of economics who actively campaigns for the strengthening of friendship and mutual understanding between the Soviet and English peoples".

Maxwell conned the world's presidents as well as the world's bankers. He tricked them all into believing his delusion: that he had created an empire controlling billions of dollars, entitling him to meet heads of state on equal terms. His global network of television stations, newspapers, books and electronic databases, linked by the latest telecommunications was his calling card to the world's leaders.

Prestige not profit appears to have been the driving force behind a lot of Maxwell's business deals. Many that he made with huge enthusiasm gave him the front page headlines he craved, but yielded little financial return. His attempt to conquer the US, the richest country in the world – spending $3bn in 1988 taking over publishing houses – was the step that eventually brought his empire crashing.

His wooing of world statesmen also intensified that year. The host of tiny exotic projects that followed drained away time and money when his empire needed it most. For the next three years his Gulfstream aircraft, restocked each day with champagne and caviar, scarcely spent a week in the same city.

In his search for attention he courted some of the newest, shakiest and nastiest governments with promises of investment. Even though he delivered on only a fraction of these, he still poured tens of millions of pounds into these governments' favourite projects.

The closeness of his links with some foreign ministers has led to suggestions that Maxwell was a spy. He died amid a flurry of allegations that he was an agent for Mossad, the Israeli secret service. This followed older rumours of links with the KGB. These claims remain to be proven. What is certain is that the services he performed for some governments, notably the old, hard-line communist regimes, were highly questionable.

Previously-secret Communist party archives, declassified specially for the Financial Times, say that Maxwell regularly briefed the Kremlin on events in the west – including Andropov when he was head of the KGB before he became Soviet leader in 1982. Our investigations have also uncovered a pattern of favours he performed for Israeli and Bulgarian ministers.

The picture that emerges from Maxwell's ceaseless foreign travel supports overwhelmingly the view of Maxwell company directors that he lost his judgment up to three years before he died.

Near the end of his life, leaning out from the window of his penthouse overlooking the Old City of Jerusalem, he said: "This is the only place I really feel at home." Israel returned that sentiment: more than other countries it was willing to believe in him.

Understanding the fraud means understanding Maxwell's fantasy. The part of Czechoslovakia in which he was born was annexed by the Soviet Union in the Second World War. His family had been annihilated, so he set about creating his own country, one that would reach every corner of the world.

Maxwell could find something he enjoyed – and wanted to own – in any culture. His aides say he would also visit anywhere which promised a state reception. "He loved the aura of the great man flying in, everyone running around," says a former Daily Mirror executive.

Maxwell hired some of the most distinguished products of the Foreign Office to act as his empire's ambassadors. These included Peter Jay, former ambassador to the US and Sir John Morgan, former ambassador to Mexico. One of the Mirror's former editors says: "Peter Jay or Sir John Morgan would lay everything on at diplomatic level and we would take off: we'd have chauffeur-driven cars all the way; in Bulgaria, Czechoslovakia, Poland, the British ambassador would usually come to meet us."

One of Maxwell's greatest pleasures was being able to boast that he could telephone direct the president of the Soviet Union. The secret files made available to the FT portray him going to great lengths to display his sympathy for Soviet concerns: a westerner who could be trusted by the Soviet leadership.

Maxwell's involvement probably

'Many leading articles in the Mirror group newspapers are agreed with the leader of the Labour party, Neil Kinnock'

– Robert Maxwell

began in the Cold War era of Leonid Brezhnev, when he began publishing the stodgy works and hagiographies of hardline Soviet and eastern European leaders. Maxwell – who to the day of his death described himself as a socialist – warmed to the new-world rhetoric and authoritarianism of these leaders.

One Kremlin file notes a conversation between Maxwell and the Soviet ambassador in London in 1985 when Maxwell had pronounced that Thatcher and the Conservatives "could hardly" retain power after the next general election.

Anxious to impress the Kremlin with his left-wing bona fides, Maxwell also told the ambassador: "Many leading articles in the Mirror group newspapers are agreed with the leader of the Labour party, Neil Kinnock."

Victims of Maxwell's broken promises in the Soviet Union speak of him as an opportunist who used the lure of potential business projects to win Soviet attention.

According to the Kremlin documents, on March 22, 1988, Maxwell was received by Alexander Yakovlev – Gorbachev's key aide and the godfather of perestroika – to discuss the publication of Moscow News in English. The project was given the green light.

On October 19, 1990, Maxwell finally met Gorbachev – a high point of pleasure. The very next day Maxwell executives announced they were cutting off money from the joint Maxwell-Soviet publication. The reason given was the Persian Gulf crisis – but more likely, Maxwell's ambition had been the presidential meeting, not the newspaper, and he then wanted to flex his muscles in front of Gorbachev.

The Soviets found his word was not his bond – as did many others.

Visiting Carlos Menem, Argentina's president, in Buenos Aires on October 20, 1989, Maxwell was received like a foreign dignitary with a reception in the Gold Salon of the Foreign Ministry. No British subject had been treated that way by Argentina since the end of the Falklands War. But Argentina was emerging from a debt and inflation crisis and was desperate to bring in foreign capital.

Maxwell said he wanted to buy all the papermaking plants in Argentina, rescue the near-bankrupt evening newspaper La Razon, and buy a stake in Canal 2, one of the TV stations. The president's office issued a statement several weeks later saying that the Mirror Group had invested $300,000 in La Razon and claiming that more investments would follow. However, La Razon closed within months, and Maxwell put no more money into Argentina because of his anger at its regulations against foreign control of its television companies.

Just weeks before his death, in a vitriolic letter to Julio Mera Figueroa, former interior minister, Maxwell declared he would never return to Argentina. Some estimates suggest he spent up to $6m in the whole Argentine adventure.

Above all else, Maxwell hated being left out. Some time after Nelson Mandela, the black South African leader, was released from jail he came to the UK and was invited to a black tie dinner at the Commonwealth Institute. Robert Maxwell was not invited. He phoned the organisers and demanded to be among the guests. When he heard nothing he turned up on the doorstep in a dinner jacket and demanded to be admitted. Once in, he barged his way to the top table and sat down next to Mandela, from where he dominated the conversation all evening.

The smaller the country, the more desperate for investment, the fewer the regulations and the more naive the government, the warmer the welcome he received – at least initially. In tiny, near-bankrupt Bulgaria he found a country small enough to let him act like a king.

His first "investment" was in 1982: £5,000 in the Lyudmila Zhivkova Foundation, a charity set up to promote principles of "truth, beauty and education". It was named after the daughter of the communist dictator Todor Zhivkov, whose government has been widely accused of killing dissident Georgi Markov with a poisoned-tipped umbrella in 1978. Michael Tachev, since 1987 the secretary general of the foundation, which has been renamed St Cyril & Methodius, shrugs when asked about Maxwell's original motives. "Even the Mafia invest in charity to safeguard their souls," he says.

When Zhivkov was deposed in November 1989 by a "socialist" government – the communists under a new name – Maxwell "seemed like Santa Claus and was accepted by everyone", says Tachev. The new prime minister, Andrei Lukanov, gave Maxwell the use of two villas in a compound of luxurious diplomatic chalets near Sofia. When Maxwell and his entourage left he would often leave the phone bill to be paid by the British embassy.

He scattered nearly half a million pounds on impulsive projects: a school to teach Bulgarian businessmen western methods; a few thousand invested in Balkan Films, producers of the cartoons Cuddles & Orvill; and more to help the charity diversify into book printing. He gave Slavia, Bulgaria's oldest football team, $100,000 and a set of shirts emblazoned MAXWELL. He arranged it all through the Politburo. The team manager remembers: "I suddenly got a call one day from the Politburo saying: 'Come and get these shirts – they're cluttering up our corridors.'"

Most of his plans came to nothing, neither his hopes for a new Bulgarian bank, nor the scheme in April 1990 for a joint venture with Colgate Palmolive to revolutionise the Bulgarian toothpaste industry. "The toothpaste we would have appreciated," says a spokesman for the British embassy.

In April 1990, Maxwell took Bulgarian government officials and Richard Thomas, the British ambassador, in his Gulfstream jet to survey former Communist mansions he was considering buying. He wanted to found Hollywood-on-the-Black-Sea, a film set and a resort where stars would sit drinking cocktails. "He was thinking of people like Rod Stewart," says one Maxwell aide.

The party measured the depth of the harbour near Perla to see if the Lady Ghislaine, Maxwell's yacht, could moor there. When the medieval city Velikaturnova was pointed out to him Maxwell said: "I'll have that one too."

At one point on the jet Thomas became concerned because Maxwell was threatening to fly to another country. The worried envoy pointed out that protocol forbade him from leaving the country without state permission. Maxwell refused to promise that the aircraft would stay in Bulgarian airspace. Nor did he promise that it would return to Sofia, so the ambassadorial Jaguar had to trace the Gulfstream's path, eventually rescuing the hapless envoy by the Black Sea.

Maxwell performed at least one service that Bulgaria needed: supplying hard currency after March 1990 when Lukanov suspended payments on the country's $11bn debt and foreign capital was cut off. In mid-1990 Maxwell lent £2.1m worth of Swiss francs – a significant sum at that point in Bulgaria – to the Economic Bank, one of Bulgaria's first private banks.

He also proposed to manage overseas currency reserves of around £50m for the Bulgarian central bank. Peter Jay, who negotiated the deal, denies any discomfort at dealing with the hard-line Bulgarian government. "This, not being the Foreign Office, one wasn't provided with briefs of who these men were," he says. Jay did not think they were doing anything that the Foreign Office would not do. "Ambassadors have meetings with perfectly dreadful people. One might have a private desire to punch them on the nose, but etiquette prevents it."

Did Maxwell's favours go further than that? Prominent members of the United Democratic Front, the coalition which threw out the communists in October 1990, are convinced that former ministers smuggled hard currency out to western bank accounts in the months before their government fell; and some think Maxwell helped them. But the present government, in spite of its interest, has not so far identified instances of these payments, let alone proof of Maxwell's aid.

Lukanov, who made frequent, discreet visits to Headington Hill Hall, Maxwell's Oxfordshire mansion – the last in August 1991 – dismisses the claims. "For me he was an outstanding character."

Indeed, two weeks before the country's first free elections in June 1990, Maxwell jointly sponsored a Sofia pop concert for 30,000 people with the Communist party. It was taken as his endorsement of them. He wanted to get Samantha Fox, the topless model turned pop singer who was performing in a rival concert, to appear. But the plan came to nothing.

At a party to celebrate his 67th birthday a few days later in Oxford, he was given a T-shirt reading King of Bulgaria and a paste crown, and was crowned King of Bulgaria. One of his executives remembers: "His smile was ear to ear."

But even Bulgaria eventually turned against Maxwell – and he later found other doors closing on him. In France in 1987 he spent FFr750m on buying 12 per cent of TF1, the leading French TV channel, and some £10m on a stake in the Grande Arche of La Defense, the prestigious office development outside Paris. He contributed £100,000 to the Champs Elysées bicentennial July 14 parade, which gave him entry to the ministerial reception, where he spoke to President François Mitterand for five minutes. But he never received the recognition he felt he deserved. When, in early 1991, he was again blocked by restrictions on foreign ownership of media, he started selling his TF1 stake at a loss.

Administrators of his empire, now trying to salvage money for its creditors, have found that most of his eastern European investments have been worth little more than souvenirs – the corporate equivalent of a glass paperweight with a miniature Kremlin inside.

Maxwell turned, finally to Israel. "Israel was like an island, where he knew he would be loved, admired, and taken care of," says Tommy Lapid, editorial writer on Ma'ariv – the Hebrew-language newspaper – and one of Maxwell's closest Israeli friends. Israel was Maxwell's greatest foreign success, both financially and politically – but also the country to which he felt closest.

However, the country now has to explain why it gave him a funeral on the Mount of Olives, with orations by cabinet ministers. Lapid says: "Israel has the same choice as everyone else involved in this. Either we knew, and so we were crooks, or we didn't know, and we were fools."

Maxwell's courtship with Israel was sudden. A cousin by marriage, Dov Yudkovsky, led him to Ya'acov Ne'eman, a prominent Tel Aviv lawyer. Ne'eman's firm, Herzog, Fox, Ne'eman, is chaired by Israel's president Chaim Herzog.

Ne'eman led Maxwell to his first Israeli deal: paying $6.5m in August 1988 for a 26 per cent stake in Ma'ariv which was in acute need of cash.

From then on Maxwell visited Israel three or four times a year, staying in Room 522 of the King David Hotel, a two-floored penthouse with gold-tapped jacuzzi. The hotel built a pad for his helicopter on the roof. He bought a string of businesses. Tel Aviv cars in 1989 carried bumper stickers reading "Robert Maxwell – Buy Me."

Ma'ariv launched him to political as well as commercial prominence in Israel. "We – and Ne'eman – introduced him to everyone," says Ido Dissentchik, Ma'ariv's editor until Maxwell sacked him in 1991.

'Ambassadors meet dreadful people. One might want to punch them on the nose, but etiquette prevents it'

– Peter Jay

Maxwell rapidly became friends with three politicians spanning the Israeli political spectrum: the liberal Shimon Peres, then finance minister of the Labour party-led government; Ehud Olmert, one of the right-wing Likud party's rising stars and currently minister of health; and the extreme right-winger Arik Sharon, then minister of industry and trade.

He was particularly close to the hawkish Sharon. The two huge men would meet every time Maxwell came to Tel Aviv. Maxwell would often make the short flight south to Sharon's farm. Our investigations have also revealed that, in early 1990, at Sharon's request, Maxwell secretly loaned $1m to a group of extremist Jewish settlers to help them take over a large building in the heart of the Christian Quarter of Jerusalem's Old City.

"The money was transferred within two hours after a call from Arik Sharon," recalls Ehud Olmert, another cabinet minister. "It was all paid back later."

Teddy Kollek, the mayor of Jerusalem with whom Maxwell also frequently met, denounced the action as a threat to peace, saying the damage done to fragile communal relations "will take years to repair".

Does this depth of influence throughout Israeli society point to connections with Mossad? Olmert is vehement it does not, and a senior adviser to the Ministry of Defence, who asked not to be quoted, is strongly of the same opinion. They, and Ma'ariv directors, point out that Maxwell's unreliability and love of publicity made him an improbable spy.

Maxwell entirely failed to win over the prime minister Yitzhak Shamir, himself a former Mossad agent. The two met several times – but the cautious and secretive Shamir loathed Maxwell's boasting and indiscretion.

The extent of Maxwell's influence can be explained instead by his promises of money at a time when Israel was anxious for outside investment, and partly by Israeli naivety.

A former aide to Peres, says: "When someone of his status in the world mentions Ronald Reagan, Gorbachev, Margaret Thatcher, it affects people. The size of his presence in a room, the way he spoke, created the impression that you should take notice of this guy because he could really do something for the economy."

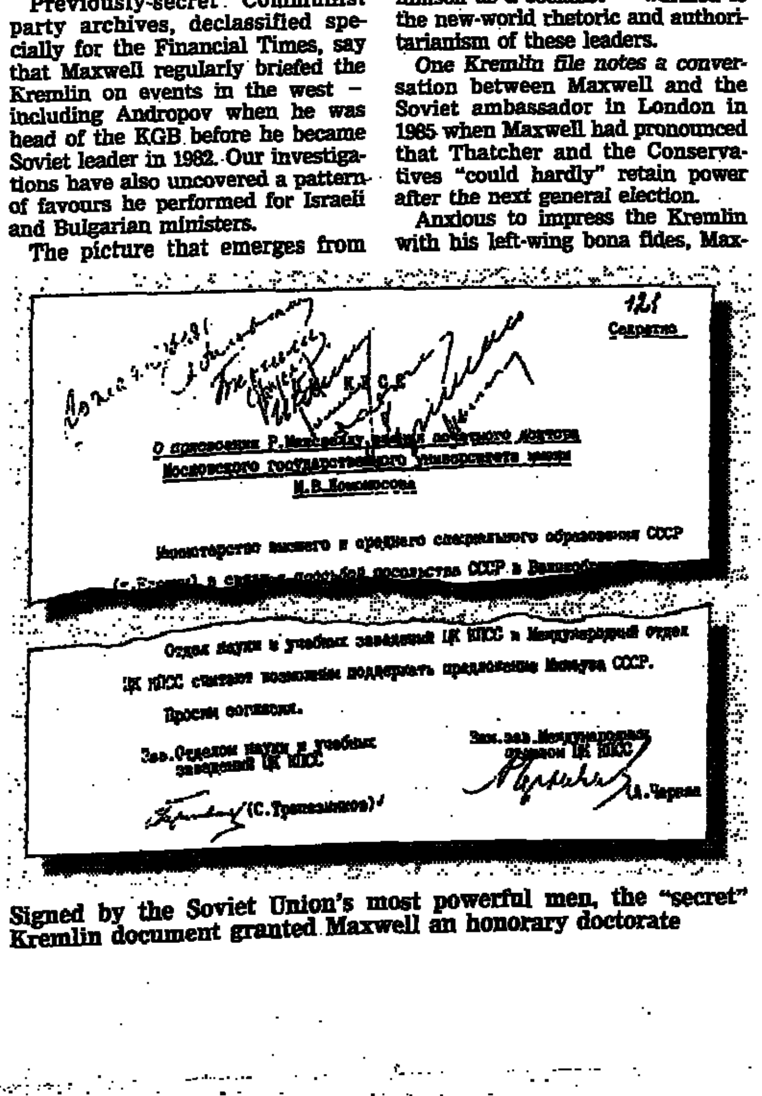
However, he repeatedly misunderstood Israeli sensitivities. At a Ma'ariv board meeting Maxwell picked up the phone to clinch a deal with the German supplier of printing equipment. Showing off to his executives, he concluded "and give them a discount for the Holocaust". Dissentchik says: "I told him: 'I am going to kill you if you don't take that back.' And he said 'Did I really say that?' He hadn't noticed."

Yet many still feel warmly about him. Lapid argues: "He epitomised a great deal of what we admire: a Jew who survived the Holocaust, who made it." Three months before Maxwell died, Lapid went with him to Jerusalem's Holocaust museum. "I held him when he was shaking, crying. It is an automatic bond".

The funeral remains an embarrassment. Dissentchik argues: "This was not the state funeral it seemed. There isn't such a thing in Israel, it's too new and too informal. The president, Herzog, went because he was president of Ne'eman's law firm, and he didn't go to the graveside, just to the memorial service in the centre of town. Sharon, Olmert and Peres went as friends. Shamir went, reluctantly." Lapid adds: "It came out of the drama of the situation. He wouldn't have got it if he had died after a long illness."

Peres will not discuss it, saying he finds the episode too painful. But a former aides says: "Peres now feels he was made a fool of, that his judgment of character is dented. The funeral was clearly a terrible mistake. It is part of the price Israel pays for an absence of tradition. It will never happen again."

Maxwell was given a paste crown and a T-shirt reading King of Bulgaria. "His smile was ear to ear"



Signed by the Soviet Union's most powerful men, the "secret" Kremlin document granted Maxwell an honorary doctorate

What they said when he died

"Mr and Mrs Maxwell were great supporters of charity and were often present at receptions to raise money for purposes from hospitals, to children and the arts. Mr Maxwell had wide contacts throughout eastern Europe and kept me informed about what was happening in those countries and what their leaders were thinking."
Margaret Thatcher

"He was a charismatic figure who supported the European cause, in this he was a tower of strength."
Edward Heath

"Robert Maxwell brought the most tremendous flair, zest, and enthusiasm to everything he did."
Lord Callaghan

"Mr Maxwell's ebullient character was a unique part of our national scene."
Paddy Ashdown

"His tragic disappearance robs Britain of one of our most colourful and energetic figures. He was a man of action. He wanted to get things done. He was truly larger than life and the world will be poorer for his absence."
Douglas Hurd

"He was a steadfast supporter of the Labour party and a man with genuine commitment to the advancement of the British people. I valued his personal friendship and the fact that, even when our judgment diverged, he was always willing to sustain his enthusiasm for the Labour cause."
Neil Kinnock

"I can't believe that even the sea could overcome him. It is impossible to compare him with anybody. He was so above comparison."
Shimon Peres

"He was a great character who will be missed. I am sure he would not want us to grieve at his loss but marvel at a quite extraordinary life, lived to the full. No-one should doubt his interest in peace and his loyalty to friends."
John Major

"I knew him, especially in recent times, as a person who invested money in Israel and who put his wide contacts on the international arena at Israel's service."
Yitzhak Shamir

"The world famous publisher and personal friend... contributed greatly to the improvement of relations between nations in the important business of mass media management and publishing."
Mikhail Gorbachev

The FT's team of journalists has interviewed more than 150 people in 13 countries. The team led by Bronwen Maddox included:
In London: Jimmy Burns, Raymond Snoddy, Robert Peston, Andrew Jack, Norma Cohen, Richard Gourlay, Daniel Green
In Jerusalem: Hugh Carnegy **In Liechtenstein:** Ian Rodger **In Moscow:** Leyla Boulton **In New York:** Alan Friedman

TOMORROW PART 4:
Devil take the hindmost

MANAGEMENT: THE GROWING BUSINESS

In a Nutshell

Keeping chambers up to standard

The North Derbyshire Chamber of Commerce and Industry has become the first to win BS5750 quality assurance for the entire range of its activities. The chamber, based in Chesterfield, has 1,000 members.

Other chambers are expected to follow as part of a programme launched 18 months ago by the Association of British Chambers of Commerce to improve the quality of service provided by chambers nationally.

A further three chambers, in Bristol, Nottinghamshire and Walsall, have qualified for the association's approval status, *bringing the total of approved* chambers to six. The association regards approval as the first *stage in improving quality*, to be followed by BS5750 accreditation. Its ultimate aim is for 50 chambers to be approved.

Giving credit where it is not due

***Only 3 per cent of UK companies* are paid by the date stipulated on their invoices, according to *a survey* by Trade Indemnity*, a credit insurance company.**

Nearly 60 per cent of companies wait between 11 and 30 days after the due date while *22 per cent wait longer than a* month. On average, companies wait an extra 27 days for payment and have 25 per cent of their invoices outstanding for more than 30 days. The sectors which suffer most are construction and engineering.

**Quarterly Financial Trends Survey. Trade Indemnity. Tel 071 739 4311.*

Venturers address return to lender

The British venture capital industry produces voluminous statistics about its activities but has not until now published the numbers *that most interest its inves*tors: those which show the returns on its investments.

Faced with increasing pressure from the institutions who have had to accept disappointing returns, the British Venture Capital Association is to carry out a pilot study to gather performance statistics.

The association will gather information on individual invest*ments by six members to see* whether a pattern emerges from investments made in a particular year or type of *deal*. It may also look at the returns from investments by industry.

The data will not be used to compare the performance of different venture capital funds however, a prospect which worries many venture capitalists.

Pharos offers enlightenment

Businesses unsure about the impact of the single European market might find a computerised advisory service launched by National Westminster Bank of help.

Pharos, a computer program *which can be used on IBM-com*patible machines, builds up a profile of the user's business by asking a series of questions.

It identifies the key single-market issues and produces proposals and advice on strategy and operations.

The program covers issues such as tax, the environment, consumer protection, product *standards and health and safety*. It is designed for companies in the turnover range of £250,000 to £100m and does not require computing skills, NatWest says.

Pharos is free to NatWest customers, to clients of accountants Ernst & Young and members of the Confederation of British Industry, which jointly developed the program.

Contact 0800 777888.

Managers take a passage from India

Thirty owner-managers of small but growing businesses from the Karnataka region of India are taking part in a three-month programme in the UK to help them manage the growth of their companies.

A second programme involving owner-managers from the Ahmedabad region will start in September. If these two pilots are *successful*, the scheme will be launched nationally throughout India in 1993.

The development programme is being run by the Small Business Centre at Durham University Business School (DUBS), together with the Entrepreneur*ship Development Institute of* India.

Contact DUBs, Mill Hill Lane, Durham City, DH1 3LB. Tel 091 374 2211.

Planning applications can be costly and time consuming. **Charles Batchelor** looks at how to avoid the pitfalls

Danger of building on false premises

Robinsons Plastics, a southern company,* had been quite happily working from its premises for more than a decade.

Part of the building which it used for office space was officially designated as being for residential use *but this had never bothered* the local planning authority.

It was only when a spate of accidents, not involving the company's vehicles, made parking an issue with local residents that questions were raised about where the company parked its vans.

In the course of the controversy, it became publicly known that the company did not have planning permission for its offices and the balloon went up.

The company applied for a change from residential to office use. Planning officials agreed but the local council's planning committee turned the application down because, it said, there was not enough parking space. The company, which has turnover of about £2m, is now appealing against the decision.

"Unless it is overturned, we will have no choice but to relocate," says the general manager. But the cost of moving and the possible disruption would have a serious impact on the business.

Robinsons Plastics is not alone in finding Britain's planning system costly and confusing.

"Small businesses feel they don't have the *opportunity to put their* case across properly," says David Harrop, spokesman for the Forum of Private Business. "The planners do not always understand the needs of small business."

Not only do smaller firms lack the resources of large companies, they rarely have the chance to build up any experience of dealing with planners.

"The small company only considers planning issues in times of crisis, when they need to expand or to move," says Rory Joyce, a spokesman for the Royal Institution of Chartered Surveyors.

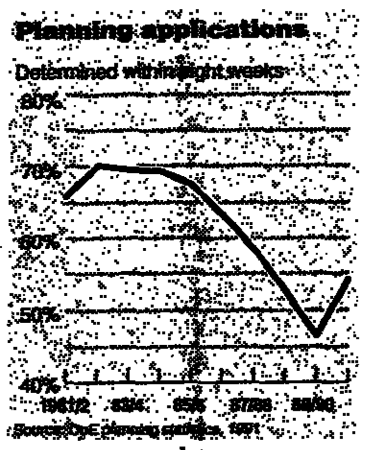
"Often, the first time they know they have done something which needs planning permission is when they are faced with an enforcement action, compelling them to put something right," he says.

Small businesses also feel themselves to be victims of a planning system which is tilted in favour of larger, wealthier companies.

"Large supermarkets can afford to come back with revised applications which the local authority cannot *afford to oppose," says Bill* Franklin, chairman of the Sheffield chamber of trade.

"This is cheque book planning which is changing the character of our city centres."

If a large supermarket opens near a parade of smaller shops, there is little the small retailer can do apart



Source: DoE planning statistics, 1991

from apply for a reduction in his *business rates, says Stephen Alam*britis, lobbyist for the Federation of Small Businesses.

If a landlord owns a large swathe of the shopping area, the retailer may be able to argue for a clause in his lease excluding other shops in the same sector from setting up nearby.

This clash of interests between small retailers and the large out-of-town superstores has been the focus of much small firms' discontent about the planning system in recent years. Signs that there is now a large oversupply of out-of-town retailing space is, however, now leading to a swing back in favour of the smaller outlets.

Another source of conflict has been the position of people running a business from home.

"The rules are not particularly clear and different local authorities take differing views," says Martin Anscombe, chairman of the legislation and local government committee of the National Chamber of Trade.

Hairdressing, dress-making and *music teaching normally present no* problems, provided they do not lead to a large increase in traffic or the number of people calling, but other businesses may cause problems.

So what can small businesses do to improve their influence in the planning process? Planning specialists suggest they:

- Join a local business organisation such as chamber of trade or *commerce which can lobby for* small traders' interests and spread the financial burden of opposing planning applications and fighting appeals, suggests Anscombe.
- Study the workings of the planning process. The Department of the Environment publishes a Step by Step Guide to Planning Permission for Small Businesses** and a revised version to take account of *the latest developments is planned* shortly.
- Call in a professional: a surveyor or an architect with experience of planning procedures. A surveyor will be less well equipped to design a building than an architect if that is what is required but both sets of *professionals* should be well versed in the intricacies of the planning process.

Fees will normally be charged on a time-basis and will rise with the seniority of the person handling the case.

There will also be a fee to pay to the local authority to make a planning submission, rising from £55 for domestic extensions to £5,520 for a *large building development*.

If a planning application goes to appeal, then costs can rise sharply because legal advice will probably be needed.

Despite the widespread belief among small businesses that the planning system is both archaic and hostile to their interests, it is undergoing considerable change. An important thrust of these efforts is to make the system more responsive to small firms.

A revised set of guidelines for planning officers on how to deal with industry, *commerce and small* businesses is being prepared by the Department of Environment.

In a draft of its revised Policy Guidance Note Number Four, the department urges special consideration for small businesses because uncertainty may "threaten their *growth or* existence".

Instead of refusing an application outright, councils should impose conditions if appropriate.

Speculative builders who frequently build premises used by small firms should not be discriminated against simply because they do not know who the future occupants of the premises will be, it urges.

The deregulation unit of the Department of Trade and Industry has been studying the mass of regulations affecting business which are policed by local authorities.

It will later this month announce details of a partnership programme aimed at streamlining procedures in *the areas of planning, trading stan*dards and health and safety.

A Confederation of British Industry (CBI) task force has been set up to investigate how to improve the planning system. It will present its report to the CBI annual conference in November.

Finally, local authorities across the country are drawing up development plans which will set down guidelines for the way their areas will evolve over the next decade. The aim of these plans is to give councils greater strategic control *over developments*.

A potential weakness of these plans is that they will rapidly become out of date and they may be used by local authorities to refuse developments which are not specifically mentioned in plan, says Marco Torquati, senior policy executive at the Association of British Chambers of Commerce.

But provided that business takes *a part in the shaping of the plan* and knows what policies the local authority is pursuing, the plans should provide more certainty for businesses.

Planning issues can be complex and, because they frequently involve the reconciliation of conflicting demands, highly charged. But with careful preparation and, where necessary, the use of professional advice, much of the mystery can be removed.

**The name of the company has been changed.*

***From DOE, PO Box 135, Bradford, West Yorkshire, BD9 4HU. 32 pages. Free.*

General contacts: Royal Institution of Chartered Surveyors, 12 Great George Street, London SW1P 3AD. Tel 071 222 7000. Royal Institute of British Architects, 66 Portland Place, London W1N 4AD. Tel 071 580 5533.

A discussion with your planning officer can save time and trouble

You should:

- ☐ Describe your proposals and show him your plans
- ☐ Ask for his assessment of whether there seems a reasonable chance of getting permission and, if not, what alternative approach he would advise
- ☐ Ask his advice on site problems such as roads, footpaths, power cables, watercourses, sewers, telephone lines or toxic chemicals
- ☐ Discuss possible problems such as noise and traffic and the extent to which the council might impose conditions on their approval. Ask yourself if these will affect the viability of your proposed development
- ☐ Ask whether site notices or advertisement of your proposals will be necessary
- ☐ Find out the timetable for future committee meetings. Getting your application in a day or two earlier might gain you three or four weeks if it means your proposals get onto the agenda of an earlier committee meeting

Source: Department of the Environment

BUSINESS OPPORTUNITIES

READERS ARE RECOMMENDED TO SEEK APPROPRIATE PROFESSIONAL ADVICE BEFORE ENTERING INTO COMMITMENTS

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Quietwaters Limited, which is within easy reach of London and the M25, was formed in 1987 to establish a premier golf and country club comprising a luxury hotel, two golf courses and a wide variety of high quality sports facilities for tennis, bowls, squash and snooker with the support of some of the biggest names in their respective sports.

Quietwaters comprises:

- Four star quality hotel with potential 118 rooms including swimming pool and health and fitness facilities.
- Extensive conference and function facilities.
- Championship Golf Course designed to meet PGA European Tour international standards.
- Further 18 hole golf course.
- Country Club facilities annexed to the Hotel including squash courts, tennis, bowls hall, snooker rooms and outdoor floodlit tennis courts.
- Full range of food and beverage facilities throughout.

For further information please contact Sandy Brown or Guy Hollander at the address below.

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- Country House Hotel set in extensive landscaped gardens
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Tel: 071-486 5888, Fax: 071-935 3944.

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BY ORDER OF THE ADMINISTRATOR
DAVID SWADEN FCA
IN THE MATTER OF

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Offers are invited for the business and assets of the above company.

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On the Instructions of NJ Halls Esq, Cork Gully, Joint Administrative Receiver

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- Long established business with a reputation and track record for quality with blue chip customer base.
- Equipped freehold premises in Plymouth, Exeter and Okehampton.
- 5 major contracts in progress. Turnover of c. £5 million p.a. (year to 31 March 1992 £13.6 million).
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For further information please contact:
The Joint Administrative Receivers, PRC Densham FCA and PS Padmore FCA, Price Waterhouse, 31 Great George Street, Bristol BS1 5QD. Tel: (0272) 293701. Fax: (0272) 290519.

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- Full occupancy

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"WIZAMET" S.A. is a sole producer in Poland of steel blades for shaving with the capacity to produce 500 mL blades per year. The company is located in Lodz, second largest town in Poland.

For further information contact Access Ltd, an adviser to Ministry of Ownership Changes, at the address:

ACCESS LTD.
00-580 Warsaw, Poland
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(North of England)

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BUSINESSES FOR SALE

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Roborough, Plymouth

The Joint Administrative Receivers offer for sale the business and assets of The Devonwood Company Limited (formerly Valco Veneers Limited).

Principal features include:

- Purpose built modern leasehold premises incorporating 120,000 sq ft of accommodation.
- Prestigious customer list including mail order and high street catalogue outlets.
- Current turnover approximately £6 million per annum.
- Complete manufacturing facility with modern plant and machinery including CNC Routers and Venjakob automatic spray plant.
- Book values of assets currently approximately:
  Plant and Equipment £2 million
  Stock and Work in Progress £1 million
- Workforce of over 200.

For further information contact the Joint Administrative Receiver, Richard Neville, KPMG Peat Marwick, Phoenix House, Notte Street, Plymouth, PL1 2RT. Tel: (0752) 225381. Fax: (0752) 257535.

KPMG Corporate Recovery

Furniture Retailers

(In Administrative Receivership)

East Anglia

This well established furniture retailer is offered for sale.

- Upper market furniture retailers
- Established 1906
- Main locations Norwich, Ipswich, Thetford, Colchester
- Annual turnover approx £6 million
- Freehold property 25,500 sq ft approximately

For further details, please contact the Joint Administrative Receivers: Andrew Conquest and Geoffrey Harrison, Grant Thornton, Crown House, Crown Street, IPSWICH IP1 3HS. Tel: 0473-221491 Fax: 0473-230304

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Arnolds (Branbridges) Limited (In Receivership)

The Joint Administrative Receivers of Arnolds (Branbridges) Limited offer the assets of the business for sale as a going concern:

- 21 acre freehold property in Tonbridge encompassing :-
  - Fabrication, grit blasting, metal spraying, protective coating plant, largest paintshop in SE England, effluent treatment manufacture, all to BS 5750 Part 2 standard
  - Supply/manufacture of waste compaction systems under REFUPAK trademark
  - Provision of bulk mechanical handling systems
- Approximate historic turnover of circa £4million
- Substantial stocks and work in progress
- Order book including wide "Blue Chip" customer base and contracting facilities
- Highly skilled and experienced workforce

For further details please contact The Joint Administrative Receivers quoting reference: L3623/JMS

Levy Gee & Partners, 100 Chalk Farm Road, London NW1 8EJ. Telephone: 071-267 4477, Facsimile: 071-485 1486.

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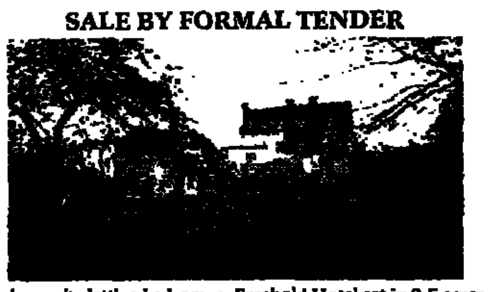

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Guide Price: Offers in excess of £750,000

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For further details and viewing arrangements contact: DAVID NEWMAN or NICK BARBER in the London office of Christie & Co. Tel: 071 486 4231 Fax: 071 935 4032

PUBLIC HOUSE OPERATOR

Coastal Leisure Limited

The Joint Administrators offer for sale as a going concern the business and assets of this public house and nightclub owner, which operates in the south coast region.

Principal features of the business include:

- £5.3 million turnover in the last 12 months
- well established trading names
- eleven leasehold properties and one tenancy
- wide range of trading styles.

For further details contact Philip Porter or Andrew Sleggall at Cork Gully, 1 Port Way, Port Solent, Portsmouth PO6 4TY. Telephone: 0705 201888. Fax: 0705 201784.

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Cork Gully

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(In Administrative Receivership)

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- *Long established and respected building company with client base*
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- *Birmingham freehold offices, workshop and plant yard*
- *Substantial land bank in Midlands area*

For further details please contact W J Kelly, Ernst & Young, PO Box 1, 3 Colmore Row, Birmingham B3 2DB. Telephone: 021-626 6262. Fax: 021-626 6363.

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HP Arnett & Son Ltd.

(In Administrative Receivership)

The joint administrative receivers of HP Arnett & Son Limited offer for sale the business and assets located in Bournemouth, Dorset. An assignment of the Rolls-Royce franchise is available subject to ratification by Rolls-Royce Motor Cars Limited.

Principal features of the business are:

- Freehold property and buildings on prime location, including recently constructed and fully equipped authorised coachwork and repair centre.
- Leasehold interest in exclusive showroom facilities.
- Specialised and general machinery, tooling and spare parts for after sales service.
- Exclusive dealership franchise agreement.
- Established customer base and trading name 'Arnett of Bournemouth'.
- 1992 turnover in excess of £2.3 million (1991: £4.1 million).

Only parties genuinely interested in purchasing the assets noted above need apply.

For further details please contact:
The Joint Administrative Receivers, PS Padmore FCA and PRC Densham FCA, Price Waterhouse, The Quay, 30 Channel Way, Ocean Village, Southampton, Hampshire SO1 1XF. Tel: (0703) 330077. Fax: (0703) 236252.

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COMPANY NOTICES

BRADFORD & BINGLEY
BUILDING SOCIETY

£100,000,000
Floating Rate Notes due 1995

In accordance with the terms and conditions of the Notes, the interest rate for the period 15th June, 1992 to 15th September, 1992 has been fixed at 10.1875% per annum. The interest payable on 15th September, 1992 against Coupon 5 will be £256.08 per £10,000 nominal.

Agent Bank
ROYAL BANK OF CANADA

AIP FINANCE N.V.
US $20,000,000 GUARANTEED FLOATING RATE NOTES 1995

The interest rate applicable to the Notes in respect of the period commencing 16th June 1992 will be 5½% per annum. The interest amounting to US $139.79 per US $5,000 and to US $279.58 per US $10,000 principal amount of the Notes will be paid on 16th December 1992 against presentation of Coupon No. 9.

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PUBLIC NOTICES

MONOPOLIES AND MERGERS COMMISSION

MMC INVITES EVIDENCE ON THE PROPOSED ACQUISITIONS OF THE NORTH SEA OFFSHORE HELICOPTER BUSINESS OF BRITISH INTERNATIONAL HELICOPTERS LTD BY BRISTOW HELICOPTERS LTD AND BY BOND HELICOPTERS LTD.

The Monopolies and Mergers Commission would like to hear from any person with information or views on the proposed acquisition by Bristow Helicopters Ltd and on the proposed acquisition by Bond Helicopters Ltd of the North Sea offshore helicopter business of British International Helicopters Ltd.

The Commission will be considering whether the proposed acquisitions raise competition concerns in the market for North Sea offshore helicopter services and whether either may be expected to operate against the public interest.

Evidence should be sent in writing as soon as possible to: Mr R.H. Seebohm, The Reference Secretary (BIH), Monopolies and Mergers Commission, New Court, 48 Carey Street, London WC2A 2JT.

ENGINEERING BUSINESSES WANTED. An established Engineering based company with extensive export contacts, wishes to expand its operations by the purchase, merger or other forms of association with compatible businesses. Please send brief details of your business, its products and location, together with a general indication of Turnover and number of employees. All replies will be dealt with in the strictest confidence. Reply to Box No A4044, Financial Times, One Southwark Bridge, London SE1 9HL.

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THE WEEK IN LUXEMBOURG

Investigations of dumping must not ignore issues of competition

EUROPEAN COURT

The European Community institutions must take into account EEC competition rules when determining issues relating to the damage caused to EC industry by dumped imports, the ECJ ruled last week.

The Court said failure to take competition rules into account would lead to the annulment of EC regulations imposing anti-dumping duties.

The case involved the validity of the EC Council regulation imposing definitive anti-dumping duties on imports of calcium metal from China and the former Soviet Union.

Extramet, a French company and the EC's largest importer of calcium metal, claimed that the Community institutions had failed to determine correctly the cause of any injury which may have been suffered by the Community industry.

Extramet alleged in proceedings before the European Commission and the EC Council that the Community industry had refused to supply calcium metal and that this was the true cause of any injury, not imports from China and the Soviet Union. The French company, Pechiney, is the sole producer of calcium metal in the EC.

Extrament had also made a complaint to the French competition authorities alleging an abuse of a dominant position by Pechiney.

The ECJ ruled that in assessing the damage suffered, the Council and the Commission must take into account only the injury caused by the relevant dumped imports.

Other factors, including injury caused by the Community industry itself, must not be attributed to the dumped imports.

As the Council and Commission had not shown that they had taken the alleged anti-competitive behaviour of the Community industry into account when determining damage the regulation was annulled.

This is the first time that the ECJ has expressly ruled that the outcome of anti-dumping proceedings may be affected by the anti-competitive conduct of the industry which the EC seeks to protect.

Although the decision is limited in scope, it will be welcomed by international business which is subject to different policy considerations under the EC competition and anti-dumping rules.

Extrament also challenged the anti-dumping duties on other grounds which the Court did not consider in the interests of judicial economy.

In particular, the court did not discuss Extramet's argument in the context of the Community interest that anti-dumping duties should not be imposed if their effect was to help maintain an unfair advantage in the market resulting from anti-competitive behaviour.

However, when Advocate General Jacobs delivered his opinion in the case back in April he stated that competition law issues should be considered by the Community institutions before deciding that the imposition of duties would be in the public interest of the Community.

Case C-358/89, Extramet Industrie SA v Council, 6CH 11 June 1992.

Spanish restrictions on bulk Rioja exports overruled

In a rare ruling on internal market export restrictions the European Court of Justice last week condemned Spanish rules limiting bulk Rioja exports to other EC countries.

The case involved bulk exports of Rioja from Spain to Belgium. A Belgian supermarket ordered 8,000 hectolitres of Rioja from a Spanish company. When told it could only have 600 hectolitres because of Spanish export controls it brought proceedings in a Brussels court to enforce the contract.

A 1988 Spanish law regulating the registered designation of origin of wine requires wine producers to bottle all wines where they are produced, except for exports, until 1993. In 1988, however, Spanish authorities imposed quotas on bulk Rioja exports.

The ECJ said the export rules contravened EEC rules on free movement of goods. They discriminated against exports because the bulk quotas only applied to export sales and not domestic sales. The Spanish government failed to convince the Court that the quotas were necessary for the protection of intellectual and commercial property.

The Court ruled that export restrictions could only be justified where they were necessary to ensure that the origin marking fulfilled its specific function – to guarantee the wine's provenance and characteristics.

Case C-47/90: Etablissements Delhaize Frères and Compagnie Le Lion SA v Promalvin SA and AGE Bodegas Unidas SA, FC 9 June 1992.

Taxes on non-Community banana imports lawful

The ECJ also upheld last week an Italian consumption tax on bananas imported from outside the EC. The law imposing the tax was however repealed shortly after the case began.

The Italian law imposed a consumption tax on all bananas irrespective of their origin. In 1987, the ECJ condemned the tax in respect of bananas in free circulation within the EC under internal market tax rules.

On this occasion the court held that the tax was lawful provided it did not apply to bananas in free circulation. However, the court made it clear that certain provisions of international treaties between the EC and developing countries, such the ACP Convention, should be examined by the national courts to determine the legality of such a tax.

Joined cases C-228/90 to 234/90, C-339/90 and C-353/90: Simba SpA, Comafrica SpA, Camar Srl, Co-Frutta SpA and Chiquita Italia v Italian Ministry of Finance, FC 9 June 1992.

Other cases

The ECJ held that French storage charges on cereals were in breach of the EC cereals market organisation and the Rome Treaty provisions on customs duties and state aids. The French storage charges discriminated in favour of domestic production.

Joined cases C-149/91 and 150/91: Sanders Adour SNC et Guyomarc'h Orthez Nutrition Animale SA v Director of Tax Services for Pyrénées-Atlantique, 6CH 11 June 1992.

The Court also held that Spanish rules limiting VAT refunds to claims based on a special form of invoice breached the Sixth VAT Directive provisions because no refund was available to claims based on an ordinary invoice.

Case C-96/91: Commission v Spain, FC 9 June 1992

The Court of First Instance has rejected an application to declare invalid a Commission decision fining Finsider, the Italian steel producer, for exceeding its quotas of steel production.

Case T-26/90: Societa Finanziara Siderurgica Finsider SpA v Commission, 1CH 5 June 1992.

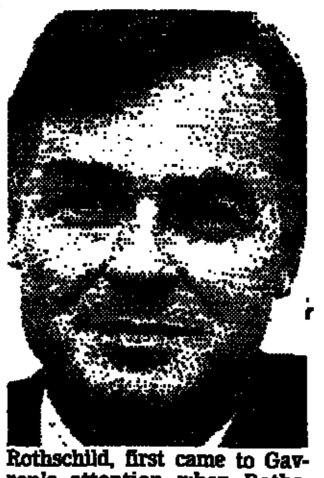
BRICK COURT CHAMBERS, BRUSSELS

PEOPLE

Banker takes the road to St Ives

Bob Gavron, the 61-year-old founder of St Ives, has anointed his successor. Miles Emley, a 43-year-old merchant banker, has been appointed deputy chairman of Britain's leading independent printer.

"After what seems like a lifetime advising people, I am looking forward to acting as a principal," says Emley, currently head of UK corporate finance at UBS Phillips & Drew. However, he stresses that his appointment should not be read as a signal that one of the printing industry's more conservative companies is about to embark on an acquisition binge.



Emley, who spent the first 17 years in the City with N M Rothschild, first came to Gavron's attention when Rothschild handled St Ives' stock market flotation in 1985. Gavron says that Emley "knows St Ives well and will add considerable strength to the development of the group".

"I don't know if I will want to retire in four years' time," says Gavron, but adds that it is important to have the next generation of management in place just in case. Noting that Britain's fragmented printing industry tends to be rather short of top management, Gavron says that the company has often tended to recruit outsiders. Gavron, one of Britain's more modestly paid chairmen, was not born into the industry, and Brian Edwards, 42, the managing director, came from Touche Ross in 1978.

First Leisure, the UK's largest pure leisure company, has found a replacement for finance director Nick Irens who is leaving to run his own company.

Graham Coles, 39, joins after less than a year with Amber Day Holdings, the discount retailer which yesterday issued a profits warning. He had previously spent three years as finance director of BhS, and before that had been with W H Smith. John Conlan, First Leisure chief executive, was unphased by Coles' short stay at Amber Day. "I am hiring him because of who he is. He has good commercial sense."

■ Colbeck Murray has been appointed a director of ENGLISH & AMERICAN UNDERWRITING AGENCY.

■ David Bevington-Smith has been appointed a divisional director of SBJ STEPHENSON.

■ Andrew Dykes, previously md of Schinnerer & Co, has been appointed md of STURGE MARINE SYNDICATE MANAGEMENT.

■ Nick Martin has been promoted to the board as development director of SEDGWICK JAMES (LONDON). Michael Hammond has been appointed md of development for north east US.

■ Doug Howell has been appointed md of Air Cleaner Technical Services, a subsidiary of BOUSTEAD; he moves from BTR-Fatati.

■ Peter Johnson, formerly distribution director of Bass Brewers North, has been appointed group human resources director at SIMON ENGINEERING and a director of Simon Operations.

■ Michael Langmore, md of Kalamazoo Computer Group, has been appointed group md of KALAMAZOO.

■ Jon Smith has been promoted from financial controller to finance director, and Geoffrey Wood-Hill has been appointed marketing director of WELLMAN.

■ David Robertson has been appointed finance director of COALITE SMOKELESS FUELS.

■ David Postgate, formerly deputy md of Express Dairy, has been appointed chief executive of LORD RAYLEIGH'S DIARIES.

■ Brian Ruffell-Ward (below left) has been appointed md of Bluecrest Foods, a member of the BOOKER Fish Division.

■ Peter Jollie (below right), a director of P&O Australia, has been appointed a director of P&O CONTAINERS.

Sears goes shopping from Hanson's office

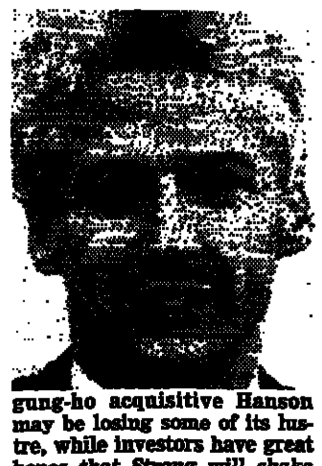
Liam Strong, the ambitious new chief executive of Sears who arrived in February, has headhunted Lord Hanson's assistant Stephen Park on to his board as finance director.

Park says that "while this may not be the perfect environment in which to go into retailing... I think I will be missing some opportunities if I have not improved Sears' performance within three years".

While Park insists that his decision to accept the Sears offer predated the arrival of Derek Bonham in the new position of Hanson chief executive, the group said yesterday that there will be no new assistant to the chairman as such. Park's duties are being reallocated – most being picked up by Bonham's team.

Park, meanwhile, says that "having been finance director of the Allders division of Hanson for a while I at least know what to expect (of the retailing industry)."

A chartered accountant with previous experience at Arthur Andersen and Data General, 39-year-old Park has been at the conglomerate since 1981 – most recently responsible for strategic planning, acquisitions and divestments.



The styles of the two operations could hardly be more different – but the gung-ho acquisitive Hanson may be losing some of its lustre, while investors have great hopes that Strong will shake the slumbering retail giant alive.

The position of finance director is opened up by John Lovering's move into a newly created position – managing director of corporate development and international operations. Lovering, 42, has been in the finance seat since 1988, but wanted to move into a more "operational" job.

Sears currently has only a tiny presence in continental Europe, and while Strong has been keen to stress that he does not regard European expansion as a panacea for domestic UK problems, he also appears to believe there is a degree of urgency if he is not to miss the boat.

Louise Kehoe describes how PC makers are striking back as cheap clones invade their market

Price is the name of the game

What's in a name? Not much, it seems, when it comes to personal computers. Over the past year an overwhelming number of personal computer buyers have decided that cheap "clones" from little-known manufacturers will do the job just as well as the more expensive brand-name PCs from companies such as International Business Machines and Compaq Computer.

The trend is forcing startling changes in the personal computer industry. Compaq yesterday launched a range of "affordable" desktop and notebook computers, abandoning its decade-old "premium pricing" strategy.

IBM is taking a different tack. By establishing its own clone-sales subsidiaries in Europe and Canada, the market leader aims to preserve the quality-brand image of its own PS/2 and PS/1 product lines, while participating in the fast-growing, "price-sensitive" segment of the market.

For both companies, these are painful adjustments. In the 1980s they dominated personal computer market trends, vied for technology leadership and looked down their corporate noses at the lesser "second- and third-tier" clone makers.

But by last year "premium branded" personal computers, including those from other large computer companies such as NCR, Hewlett-Packard and Toshiba, accounted for less than one third of personal computer unit sales in the US, according to market researchers International Data Corporation.

"We lost some of our customers' business," acknowledges Eckart Pfeiffer, Compaq president and chief executive. Corporate buyers, among them some of Compaq's best customers, switched to lower-priced vendors when Compaq's price premium became too high to justify, the company now recognises.

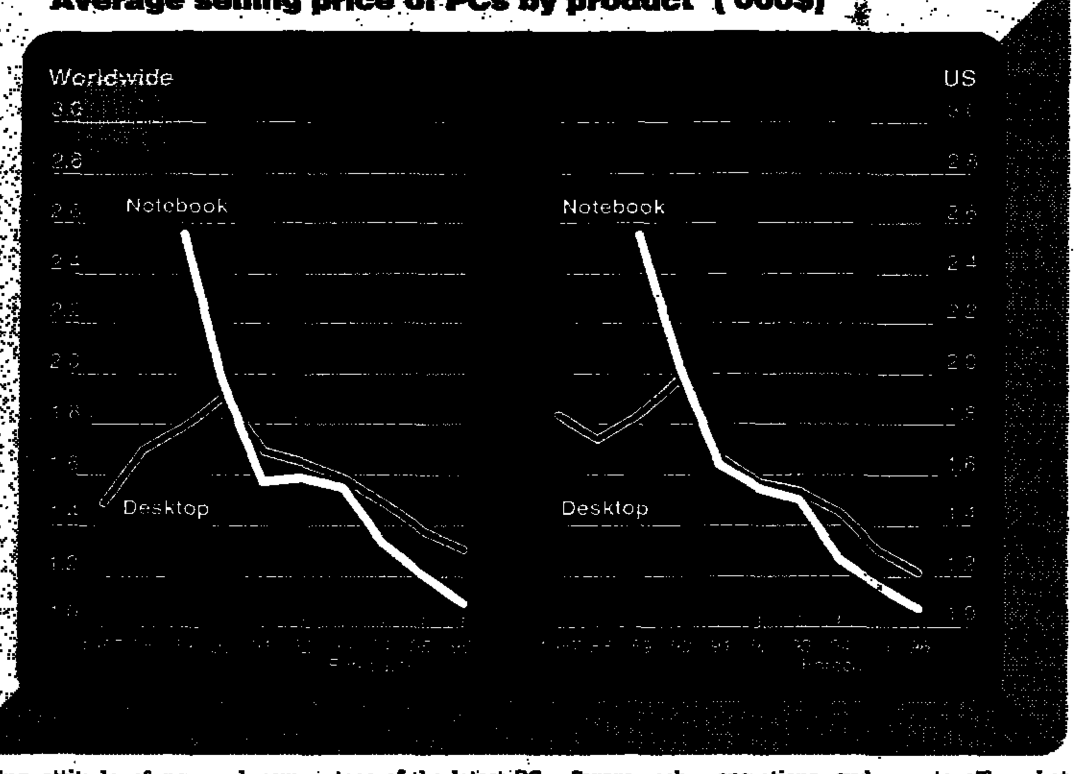
Yet as IBM and Compaq struggle to stem their market share losses, they face a tumult of competition from hundreds of clone makers vying for a piece of a shrinking market.

US unit sales of PCs declined by 12 per cent for the three months ending in April, according to David Korus, a Kidder Peabody analyst, and revenues were down 26 per cent. The average selling price of personal computers is plummeting.

Mounting competition in the market for microprocessors, the "brain" chips inside personal computers, has fuelled the fire. Intel, for several years the sole supplier of microprocessor chips to PC manufacturers, is now engaged in a market battle with Advanced Micro Devices and a growing cadre of microprocessor companies with their own versions of Intel's chips.

More important, however, is the shifting attitude of personal computer buyers. "Customers have matured from an intimidated, non-technical, obedient audience to a savvy, price-sensitive, well-educated, hard-to-please market," observes Lucianne Painter, Salomon Brothers' PC industry analyst.

Average selling price of PCs by product ('000$)



One explanation for the ferment in the personal computer market is that a bulge of second-time buyers; those who first purchased a PC when the industry was in its heyday, has coincided with economic recessions in the US and Europe, creating a high degree of price sensitivity.

Corporate PC buyers are now also tuned to the rapid advancement of personal computer technology. Two years ago, PCs based on Intel's 286 microprocessor were top sellers. Today, these machines are almost obsolete, unable to take full advantage of the latest PC software such as Microsoft's Windows.

The PC is fast becoming a disposable product. Like yesterday's newspaper, a three-year-old PC is hardly worth saving, even though it may still be in working order. Thus the longevity of higher priced, more rugged brand-name PCs becomes of questionable value.

Yet reliability and quality remain a serious concern among PC buyers, especially where PC networks have become the backbone of a company's information systems.

The dilemma for brand-name suppliers is how to compete in the lower margin segment of the market without losing the "quality" image that has set them apart in the past.

For Compaq, the answer has been to reduce drastically its costs through a big restructuring of operations, and now to offer what the company calls "affordable quality" products.

Compaq's new ProLinea desktop PCs and its Contura notebook computers are designed to compete with the clones. US prices start at $899 for a desktop 386SX model with a 40Mbyte hard drive, and $1,700 for a notebook computer based on a 386SL microprocessor.

Compaq's new products will not be the cheapest, but the differential between its prices and those of lesser-known manufacturers will be substantially reduced and the company aims to lure buyers with a $100m advertising campaign stressing the reliability of its products.

"We have done all the things we felt we had to do to win our corporate customers back, and in addition to become a strong competitor in the small business and individual buyers segments of the market," says Pfeiffer.

However, the danger for Compaq is that in cutting costs it may also have compromised its quality controls. Not so, Pfeiffer insists, although the final "burn-in" tests performed on its new models are significantly shorter than those for more expensive Compaq products.

Even so, Compaq's engineering and manufacturing strengths are widely recognised and its testing is extremely rigorous. Unlike Compaq, IBM will not legitimise the clones sold by its new subsidiaries with its own corporate logo.

The "Ambra" products, manufactured in Asia by an unnamed third party, will be "no better or worse" than other clones, Cannavino says. The Ambra products will not benefit from the exhaustive testing of quality and compatibility that IBM demands for its own PS/1 and PS/2 product lines, he stresses.

Neither will IBM's sales force be compensated for selling Ambra products. For PC buyers, the latest moves by IBM and Compaq raise anew the question of whether price should be the primary consideration in purchasing a PC. "For large organisations that rely heavily on PCs, buying cheap ones makes no sense," says Cheryl Currid, an industry consultant who studies the use of clones by US companies.

Low-cost clones are more prone to failure, Currid maintains, and there are "very real compatibility issues". The true costs of such problems are much higher than the price of a new PC, she points out. "The real expense is the loss of productivity."

Yet a recent survey of PC users by PC Magazine, a US publication, suggests that clones are equally as reliable as brand-name PCs and that many users of brand-name machines are inclined to purchase their next one from a clone maker.

One thing is clear, the price of PCs will continue to fall rapidly. IBM is expected once again to slash prices on some brand-name PCs and a host of other companies are said to be planning to follow suit, accelerating the price war.

Many analysts are predicting an industry shakeout as profit margins are squeezed. The most vulnerable companies are those offering the lowest-priced clones. "When there are too many suppliers and too much undifferentiated product, a shakeout inevitably occurs. We believe that 1992 marked the beginning of consolidation in the PC hardware industry," say analysts at Salomon Brothers.

For PC buyers this raises another new consideration. How much is it worth to know, with a reasonable degree of certainty, that the company you buy a PC from today will still be there to support it in a year's time?

Technically Speaking

One step forward and two back

By Alan Cane

COMPUTERS, through their ability to store and process large quantities of data quickly and quietly, have greatly complicated the copyright business.

The European Commission is doing its best to deal with the new electronic threats to intellectual property, but some of the solutions it is considering seem at best poorly thought through, at worst a potential block on progress.

A case in point is the measures it is prescribing – in the form of a draft directive – to protect the intellectual property contained in online commercial databases. The measures seek to outlaw what Brussels describes as "unfair extraction": in other words, database piracy.

Online databases are collections of information about specific subjects – foreign exchange rates, chemical formulae or medical statistics, for example, collated, organised and held on computers. The information is available to customers typically through a computer terminal or personal computer on a fee basis.

Examples include Priceline, owned by Reuters, and the World Patents Index from Derwent Publications. The on-line database business in Europe is flourishing after a slow start and is now probably worth some £1.75bn a year.

The EC is intent on building a comprehensive body of legislation to cover information processing and intellectual property rights. Last year, for example, it sponsored a directive, which continues to work its way through the system, designed to protect software producers against piracy. It is also working on measures to protect personal data.

Earlier this year, however, Brussels approved draft legislation aimed at would-be database pirates. It would, in essence, protect producers of databases from "unfair" copying of the contents of their product for 10 years.

The underlying rationale is that without such protection producers would hold back from investment in these databases. Sensible enough on the surface, but some would say the Commission had fired a broadside before pirate galleons were on the horizon.

Although some database producers have welcomed the legislation, there is little evidence to date that investment has been prejudiced because of its absence.

Critics argue, moreover, that the directive contains provisions which are not only unnecessary, but could stifle the competition necessary to drive innovation in the business.

The directive, for example, aims to protect not only the originality of the selection and arrangement of the facts in a database but the raw facts themselves. This threatens not only to hinder the free flow of information but also damage competition between providers of data.

Furthermore, the level of originality in the database need not be very high. So almost any collection of material might qualify for copyright after which it could neither be reproduced, translated, adapted, arranged or altered without the express consent of the copyright holder. It raises the bizarre possibility of database producers scrabbling for information of all sorts to stuff haphazardly into databases to qualify for copyright protection.

There are other anomalies – protection is awarded to the mechanism which makes the database work but not to computer programs used in its making or operation. Many would argue the two are indivisible.

And a reciprocity clause in the proposal is clearly designed to enable Europe to put pressure on the US, where unfair extraction legislation has already been rejected by the Supreme Court, to follow the European example.

The point is that databases are already adequately protected – by conventional copyright laws, by contract and by the EC member state's unfair competition laws.

Any further layers of protection seem likely to smother the very originality the EC is trying to protect. This is one directive which should be abandoned before its clauses catch inextricably in the Brussels machinery.

Henry Moore's "Goslar Warrior", 1973-74, in the Château de Bagatelle gardens, Bois de Boulogne

Sculpture/William Packer

Monumental Moore in Paris

We have come to the point with Henry Moore at which – save for the emergence of a lost or unknown early work, some discovery in the documentation, or some revelation in the personal or professional life – we no longer look forward to any real surprises. The work is known, the *oeuvre* complete. But that is not to say that its further study and display are beside the point. Indeed its fresh and frequent presentation is, if anything, now more to the point than ever, for the insights and ideas that follow upon each new selection and circumstance.

The last big Moore exhibition in France was the full retrospective held in Paris in 1977, at the Orangerie and along the formal terraces of the Tuileries Gardens. Now comes a quite different exercise: where before rather more than 200 works were shown, with the greater portion indoors, now we are offered a mere 27 in an exhibition conceived entirely for the open air. Where before the few works shown out-of-doors were set out *en série* along the high, formal terraces beside the Orangerie, in sensible acceptance of the local opportunity, now we have a display considered closely from the start for the matching of each particular work to its proper place.

The gardens of the Château de Bagatelle, tucked away on the far side of the Bois de Boulogne, are one of the true Parisian's best-kept secrets, awkward of access save by car or taxi. They are well worth the trouble, even should you suffer the thunder and lightning that marked my own first visit last week. Indeed the drama of the storm was no small bonus, once the rain had stopped, with the skies still black and yet the trees and lawns bright in the evening sun that threw each sculpture in turn into a sharp and high relief.

The Bagatelle itself presents an intriguing mixture of French and British taste in garden design and architecture, the château an enchanting pavilion put up in 64 days by Beranger for the Comte d'Artois, sister-in-law of Marie Antoinette, the park and gardens laid out in their present form largely by a later owner, Sir Richard Wallace of the Wallace Collection in London. On the one hand are formal terraces, and *parterres* and rose gardens, on the other the park, with its wide lawns, its trees and pools and sudden vistas, a landscape natural yet controlled, so very much in the English manner.

Mixture yes, but hardly conflict, and while the rose garden, spectacular as it is, may be a shade too ordered in its profusion for English eyes, and the one part into which Moore does not intrude, for the rest he is perfectly at home. The Family Group of 1949 and the earliest work in the show, closes off one end of the central walk of the sunken garden, the high wall to one side a cascade of clematis. At once the smallest and yet as truly monumental as any work being shown, it could hardly have been enthroned more sympathetically. The essential adaptability of Moore's work – here an enclosed and intimate monumentality – is not least of the points it makes.

The unspoken theme of the show is indeed that quality of the monument, most clearly evident in the later bronzes, when Moore was at last able to amplify the work to whatever size he wanted. It was always his belief that true scale was inherent, that any sculpture would work at any size if it was properly resolved within itself. And so it is that the show is limited to the bronzes of Moore's mature career, from that Family Group, still on a directly human scale, to the massive pieces of his extreme old age, made under his direction but the tiny original maquette his only direct engagement.

They are set out for the most part so that each should be seen alone, without distraction or immediate cross-reference to a neighbour, with the visitor led naturally on by the glimpse of another, just caught through a gap in the bushes or away through the trees. And that placement is so beautifully judged that there is no sense of intrusion, even by the largest piece in the middle of a lawn, the installation so cleverly done by the carriers, Momart, that it might almost have all been there for ever.

The odd and unexpected effect is that Moore gives quite as much back as he receives, his work informing and celebrating the gardens as they, too, celebrate it. There is no conflict, and it seems even a little hard that after only a summer the show must come down. The City of Paris, the Bagatelle, the British Council and the Henry Moore Foundation are all to be congratulated for so imaginative a collaboration and so special a treat.

Meanwhile, back in Paris, *Henry Moore Intime* may be quite separate an exhibition, but is, even so, a natural and happy pendant. Moore's daughter, Mary, has contrived an extraordinary documentary display not simply of his remarkable personal collection, that ranges from ancient Egypt and the pre-Columbian to Rodin and Cézanne, Degas and Seurat, but also of the furniture of his domestic life, his books in their bookcases, his trophies and souvenirs, chairs and tables, all set up as it was at home. Done with an admirable discretion, it is a touching act of filial piety and a still potent evocation of a personal presence.

Moore à Bagatelle, in the gardens of Château Bagatelle, Bois de Boulogne, Paris, until October 4 sponsored by Compagnie Générale des Eaux; GEC Alsthom; Shell France; British Steel; British Airways; ICI en France; L'Oreal. Moore Intime: Didier Imbert Fine Art, 19 Avenue Matignon, Paris 8me, until July 24, then to Japan on tour

Opera/Richard Fairman

The Merry Wives of Windsor

It would doubtless have brought a smile to Shakespeare's face if he knew that two comic operas based on *The Merry Wives of Windsor* would be playing in London at the same time. While English National Opera is performing Verdi's *Falstaff*, the students at the Guildhall School of Music have turned to another, less well-known adaptation, Otto Nicolai's *Die lustigen Weiber von Windsor*.

Whether this production would have made him smile is less certain. Where Verdi's Falstaff takes the stage with a scintillating lightness of touch, Nicolai keeps him the rumbustious figure of fun, a ludicrous philanderer in whom nobody could see much dignity or nobility of heart. The romantic warmth of the music is reserved for the other characters – a contrast nicely caught when the Guildhall last put on the opera in 1983.

For this new production Tim Coleman and his designer Isabella Bywater have tried something different. One might even have said "original" if it did not so neatly combine the main features of both ENO's *Falstaff* and the Royal Shakespeare Company's *Merry Wives*, set in 1950s suburbia. For this show opens in a launderette of that period and slowly progresses backwards in time to the formal ruffs and tightly-pinched waists of the Elizabethan era.

Unfortunately the idea is not taken far beyond the obvious jokes. Edward Hands's spiv of a Fenton sports a garish floral tie and purple socks to woo his Anne Page, a tart-in-the-making with a beehive hair-do, played by Liza Pulman. Her lower-middle class mannerisms come from Mrs Page, the incisive young mezzo Joanna Vincent-Campion, while Elvia Sanchez's light lyric Alice Ford was left to sing her aria while painting her toenails.

I caught the second cast on Friday, which had fewer obviously bright vocal talents than are remembered from 1983. Nevertheless, René Linnenbank managed to turn his lanky figure into a Falstaff of convincing girth and there was a pair of strong voices in Laurent Naouri's Mr Ford and Nathan Berg's Mr Page, the former forcefully extrovert, the latter relaxed and firm. None made the impression that he might. There was too much crude knockabout humour for that.

Some untidy playing from the orchestra under Clive Timms was not enough to disturb the stage action, but this in any case did not rank among the Guildhall's finer efforts. Nicolai's Shakespearian comic opera has not previously seemed so inferior to that of his Italian counterpart.

Old and new at Aldeburgh

The opening weekend of the 45th Aldeburgh Festival showed that the artistic uncertainties of the post-Britten and post-Pears years are now safely in the past. Old and new themes are being examined, old and new heroes celebrated, side by side, freshly, interestingly, boldly: place, performance, style and content combine to make each event, and each juxtaposition, a properly and unrepeatably festive one.

Inevitably, Aldeburgh audiences have still to be persuaded that the new is as much worth the ticket price as the old. Friday's London Sinfonietta concert of new or newish music conducted by Oliver Knussen (one of the festival's two current artistic directors) was sparsely attended, whereas Saturday's concert performance of *The Beggar's Opera* in Britten's 1948 reworking was a sell-out.

The festive excitement of the two seemed to me in inverse proportion to their popular success. Britten's *Beggar's Opera* is no mere orchestral enlargement of Gay but a thoroughgoing re-invention. The scoring for small ensemble, full of *echt*-Britten sound-devices such as trickling harp, keening oboe and ironically portentous timpani, is only the start. Though almost all of the original numbers are included, their settings are refracted through Britten's strongly personal compositional glass.

The artful complexities of added counterpoint ("I must stop myself 'canonising' too much", Britten is quoted in the programme as advising himself – an instruction he then proceeded to ignore) and the enrichments for chorus take the version far from its ballad-opera origins. Separated by time from the performing exigencies that gave Britten's labours their special slant and purpose, the revival served most usefully as a reminder of Britten the immensely practical theatre-musician, whose knack of pace and timing, of getting the most out of a particular group of singers and players was unrivalled in the 20th century.

As in the parallel cases of Wagner's re-working of Gluck's *Iphigénie en Aulide* and Strauss's of *Idomeneo*, the end-product tells us, finally, more about Britten than Gay. As a *Beggar's Opera* in its own right I found this sadly lacking in earthy simplicity and scabrous slanginess. The salt and sweat of the play, the uproarious mixture of vulgarity and social criticism, are smoothed away in the very abundance of Britten's compositional felicities; the result, though by no means as touristy a *Beggar's Opera* as Frederick Austin's edition, or Guy Woolfenden's for Scottish Opera a decade ago, is worryingly coy.

Or so it seemed in a jolly but unfocused (insufficiently rehearsed?) concert performance conducted by Steuart Bedford, and given by a glamorous cast – Philip Langridge as Macheath, Ann Murray, Yvonne Kenny, Robert Lloyd, John Rawnsley, Nuala Willis – who sang with glamorous tone but who tended to put across the words with far too little punch and point. The use of the actor Declan Mulholland as Beggar-Narrator was undermined by memory-lapses; in character and delivery, though, he alone appeared to stray in from the "real world" of the piece.

The Knussen-Sinfonietta concert – it was the conductor's 40th birthday, and began with a hilarious unannounced re-scoring of Stravinsky's *Happy Birthday* – was a dazzling affair. Knussen's own *Songs without Words* for eight instruments were receiving their first European hearing: four small, magically lyrical ruminations in each of which a single instrumental voice (most notably the english horn of the fourth) sings out above its economically picturesque accompaniment. The influence of Ravel's Mallarmé settings is clear, and fertile. Colin Matthews's bracing, boundingly inventive *Suns Dance* and Poul Ruders's over-ambitious but wildly exhilarating *Four Compositions* (1980) were the other highlights.

Sviatoslav Richter, an Aldeburgh hero, returned to the Maltings after a long absence to give the opening piano recital. His introspective Haydn in the first half showed faint signs of un-Richter-like physical caution; thereafter, Chopin, Skryabin and an incomparably luxuriant, spacious, deeply resonant Debussy *Ile joyeuse* banished them with magnificent ease. The choice of Sunday-afternoon pianist proved the adventurousness of Aldeburgh's programme-planning. Pedja Muzijevic, a young Yugoslavian resident in America, is a virtuoso with formidable fingers and a musician with fiercely original ideas about the music he plays.

At present he cannot resist underlining his insights – Haydn G major sonata (H.XVI: 6) in the first part and Schubert's A major Sonata (D959) in the second were particularly subjected to affectionate pushes and pulls of phrasing. But a pianist with too many ideas is always infinitely preferable to one with too few.

Max Loppert

Song recitals in London

Dietrich Fischer-Dieskau/Kathleen Battle

While Julia Varady is winning superlatives at Covent Garden, there is a bonus to be had from the soprano's presence here in London. Where the wife goes, there is always a chance that the husband will follow and Dietrich Fischer-Dieskau duly appeared for a single recital at the Barbican Hall on Sunday afternoon.

If memory serves right, this was the first time that the baritone has sung in recital at the hall. It is not an ideal venue and singers who tried recitals in its early years invariably found their voices drained of colour, or even lost altogether. However, Fischer-Dieskau is a law unto himself and his voice sounded as full of nuance as ever it was. Sometimes he sang so softly that the sound should never have carried in this hall, but every time it did.

The programme was devoted solely to Schubert's *Die schöne Müllerin*. This is commonly regarded as the young man's Schubert cycle and that may explain why we seldom hear it sung with half the meaning with which it was invested here. Through a life of singing Lieder, Fischer-Dieskau has discovered an immense amount to say about this music and some of the simpler songs almost burst out of their seams with the intensity, the range of emphasis and dynamics, that he packs into their slight frames.

One would be happily admiring the quiet and intimate atmosphere that he had built up in a song like "Morgengruss" only to have it suddenly snatched away in the last stanza. The listener looks anxiously down at the text. Yes, the words do support the interpretation ("Now shake off the veil of dreams") and yet it is somehow a feature of the singing these days that it should lurch so often from one extreme to the other.

Nevertheless, even if a song does not always work as a whole, there is line after line that comes across with more meaning than it ever had before: the devotion of the simple words "if *she* sent you", the chill as clouds come over the last lines of "Tränenregen". Nor is the pure singing of a section like the Miller's words in the penultimate song really that simple at all. A lifetime's knowledge of how to colour the voice was there artlessly on show.

Together with his accompanist, Christoph Eschenbach, Fischer-Dieskau paced the cycle flawlessly, moving on rapidly from song to song just after the mid-point, when jealously and resentment start to fire the music. Otherwise Eschenbach was the respectful partner, underplaying much of the time, rarely taking the lead. But then to have a pianist as well who was equally as intense would probably have been too much to bear.

Richard Fairman

In its specialised way, Miss Battle's light coloratura soprano is practically a perfect instrument. Not only is it true, flexible and pretty – *ineffably* pretty – but it embodies just the sort of character that opera-composers write for that voice: charming, often little-girlish, bright with carefully cultivated innocence. In such roles Miss Battle is regularly enchanting. In recital, as at the Royal Opera on Sunday, there is a risk of surfeit, of too much of a winsome muchness.

She drew an impressively large house on a very warm night. Her programme proved to be brief (just seven songs in the second half), but she compensated for that by starting a quarter-hour late. She chose to sing just what one might have expected: a little Handel to warm up, the usual light Mozart, some pretty Liszt and Rakhmaninov, and four high-flying songs from Richard Strauss's opus. 68. Song by song, they were mostly delicious – but in the end, it was extraordinary how similar all those composers sounded.

Not only did the vocal personality dominate everything, but the accompaniments were firmly reduced to discreet background support. American divas still command the services of an accompanying breed which is almost extinct on this side of the Atlantic: abjectly self-effacing employees, from whom any bid for musical attention may amount to a breach of contract. In Handel and Mozart Margo Garrett was routinely grey, but with the three later composers – who wrote piano-parts of salient independence – it was deeply moving to hear a competent musician striving to suppress any expressive force in her music.

It is a considerable technical feat to keep the note-filled climaxes in Rakhmaninov and Strauss down to a bloodless pianissimo, but Miss Garrett managed it, without (as far as I could tell) scamping the literal notes. That left the Battle voice to float free, to do its own appealing thing; it also left the song-shapes and the harmonic sense obscure, again and again, and dramatically null – or anyhow, much of a winsome muchness.

It was disheartening to learn from the programme-book that in America Miss Garrett is a "leading teacher" of "collaborative pianists" (the politically correct new label for accompanists). Throttled submission is not collaboration. Must America have another generation of keyboard-doormats? Whether or not Miss Battle knows or cares, the lines of her Strauss *Lieder* – "Ich wollt' ein Strausslein binden" and "Sausle, liebe Myrte" ravishingly turned, an ethereally brilliant "Amor" – could have been enhanced beyond measure by an unfettered partner at the piano.

David Murray

INTERNATIONAL ARTS GUIDE

■ AMSTERDAM

Concertgebouw 20.15 Charles Dutoit conducts the Montreal Symphony Orchestra in works by Stravinsky and Ravel. Tomorrow and Thurs: Netherlands Philharmonic Orchestra (6718 345)
Beurs van Berlage 20.15 André Richard conducts the New Ensemble in works by Luigi Nono. Tomorrow, Thurs, Fri: Nono's Prometeo (6270 466)
Muziektheater 20.15 Dutch National Ballet in choreographies by Balanchine, Forsythe, Brandsen and van Schayk. Tomorrow: Don Giovanni (6255 455)

■ BAD KISSINGEN

KISSINGER SOMMER
The annual festival in the west German resort of Bad Kissingen opens on Fri and runs till July 12. The opening weekend features a recital by Jochen Kowalski and Rossini's Petite Messe Solennelle conducted by Romano Gandolfi. Next week's concerts include a violin and piano recital by Pierre Amoyal and Michel Béroff, a concert conducted by Krzysztof Penderecki and a song recital by Lucia Popp. Other guests at the festival include Eva Marton, Heinrich Schiff, Barry Douglas and the Czech Philharmonic and Bamberg Symphony Orchestras (971-807110)

■ BRUSSELS

Monnaie 18.00 Sylvain Cambreling conducts Peter Mussbach's new production of Les Troyens, with Kathryn Harries as Dido. Runs till June 30, next performances on Fri and Sun afternoon (219 6341)

■ FLORENCE

MAGGIO MUSICALE
Teatro Communale 20.00 La forza del destino. Thurs and Sat: Maurizio Pollini is soloist in an orchestral programme conducted by Zubin Mehta. Tomorrow, Fri and Sun in Teatro della Pergola: Le nozze di Figaro (277 9236)

■ LONDON

DANCE
Royalty Theatre 19.30 Rambert Dance Company opens a two-week season with a mixed bill of choreographies by Richard Alston and Siobhan Davies. Sat: new work by Merce Cunningham (071-494 5090)
OPERA
Covent Garden 20.00 Christoph von Dohnanyi conducts Ian Judge's production of Der fliegende Holländer, with James Morris and Julia Varady, also Fri. Tomorrow: La bohème. Thurs and Sat: Samson et Dalila (071-240 1066)
Coliseum 19.00 Nicholas Kok conducts David Freeman's ENO production of Monteverdi's Ulysses, with Anthony Rolfe-Johnson and Jean Rigby. Tomorrow: Falstaff (071-836 3161)
CONCERTS
Queen Elizabeth Hall 19.45 Chilingirian and Endellion Quartets play chamber music by Strauss, Schoenberg and Mendelssohn. Tomorrow: Orchestra of the Age of Enlightenment. Tomorrow in Festival Hall: Leonard Slatkin conducts the Philharmonia (071-928 8800)
Barbican 19.45 Odaline de la Martinez conducts Lontano in a concert performance of Tom Eastwood's ballad opera The Voyage of the Catarineta. Thurs: Nigel Kennedy plays Beethoven (071-638 8891)

■ MADRID

Alfredo Kraus sings in Donizetti's La Favorita tonight at Teatro Lirico La Zarzuela, with a final performance on Sat (429 8225). Thurs at Catedral de San Isidro: Hans Graf conducts Beethoven's Missa Solemnis (466 7597)

■ NEW YORK

JAZZ
Blue Note Jazz Club and Restaurant This week's guest artists are Mario Bauza and his Afro Cuban Jazz Orchestra, plus Kenny Burrell Quartet. Showtimes at 21.00 and 23.30 daily till Sun, with an extra show at 01.30 on Fri and Sat (475 8592)

■ PARIS

Saint-Denis 20.30 Song recital by Nathalie Stutzmann. Thurs and Fri: Jean-Claude Casadesus conducts Orchestre National de Lille in Honegger's oratorio Le Roi David (4243 7772)
Opéra Comique 19.30 Michael Hampe's Cologne production of two Rossini one-act operas: La scala di sieta and L'occasione fa il ladro. Also June 18, 20, 22, 24 (4286 8883)
Palais Garnier 19.30 Ballet de l'Opéra de Paris in choreographies by Neumeier, Lander and Petit, also Thurs (4017 3535)

■ PRAGUE

Smetana Hall 19.30 Stanislav Bogunia conducts Pilsen Radio Orchestra and Chorus in works by Tchaikovsky and Fauré. Tomorrow: Mozart programme with Prague Symphony Orchestra (u Prasne brany 2, 232 5858). Thurs and Fri at Rudolfinum: Erich Leinsdorf conducts Czech Philharmonic Orchestra (231 9164)
National Theatre 19.00 La bohème. Tomorrow and Thurs at Estates Theatre: Le nozze di Figaro. Thurs at Smetana Theatre: Wagner's Rienzi. For pre-booking and information about other events, contact city centre ticket agencies (Bohemia, Na Prikope 16, 228738, or Melantrich, Wenceslas Square 38 in the passage, 228714) and theatre box offices.

■ SEVILLE

EXPO 92
This week's programme includes Donizetti's Maria Stuarda tonight, in a production by the Royal Opera, Stockholm; a song recital by Pilar Lorengar tomorrow and a Beethoven programme by the Leipzig Gewandhaus Orchestra under Kurt Masur on Sun and Mon. Next week: Kiri te Kanawa, Martha Argerich and Spanish National Orchestra (all at Maestranza Theatre). A new Spanish musical, entitled Azabache, is at the Pavilion of Andalusia from tomorrow till Sun. Ingmar Bergman's Stockholm production of Ibsen's Peer Gynt is showing this week at the Lope de Vega Theatre. At the Central Theatre, Jean Claude Gallota directs a show based on the myth of Don Juan. Next week: William Forsythe's ballet Impressing the Czar (For more information, dial 0034 5 448 0404 from outside Spain, or 902 221992 in Spain).

■ STUTTGART

LUDWIGSBURG FESTIVAL
Wolfgang Gönnenwein conducts a programme tonight and tomorrow in Theater im Forum, consisting of concertos for two, three and four pianos by Bach and Mozart, with Michel Béroff, Michel Dalberto, Brigitte Engerer and Alain Planes (repeated on Fri in Strasbourg). Tonight's other concert is a programme of chamber music by Brahms and Reger, played by Sabine Meyer and the Vienna String Sextet. Thurs: piano recital by Vladimir Ashkenazy. The festival runs till early October (7141-949610)

■ WASHINGTON

DANCE/CONCERTS
The Royal Danish Ballet opens a week's engagement at Kennedy Center Concert Hall tonight with Bournonville's A Folk Tale, repeated tomorrow and Thurs. Fri, Sat and Sun: La Sylphide and Napoli (467 4600). The National Symphony Orchestra presents three popular programmes at Wolf Trap on Thurs, Fri and Sat (703-218 6500)
THEATRE
● Kvetch: east coast premiere of Steven Berkoff's play. Opens on Thurs, until July 19 (Woolly Mammoth 393 3939).
● Richard III: Britain's National Theatre presents its acclaimed production of Shakespeare's play starring Ian McKellen. Opens next Tues, until July 19 (Kennedy Center 467 4600).
JAZZ/CABARET
Blues Alley Jazz Supperclub Tonight:The Joey Calderazzo Quartet (piano/sax). Thurs till Sun: Stanley Turrentine (sax). Next week: War. Showtimes at 20.00 and 22.00 (1073 Wisconsin Ave, in the alley, 337 4141)
Filene Center at Wolf Trap Tonight's show features Al Green, plus Bebe and Cece Winans. Tomorrow: tribute to Miles Davis with Herbie Hancock, Tony Williams, Wallace Roney and Wayne Shorter (703-218 6500)

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MONDAY TO FRIDAY

CNN
2000-2030, 2300-2330 World Business Today — a joint FT/CNN production with Grant Perry and Colin Chapman

Super Channel
0830-0900 (Mon) FT East Europe Report — weekly indepth analysis from FTTV
2130-2200 (Tues) Media Europe – what's new in European media business
2130-2200 (Wed) FT Business Weekly – global business report with James Bellini
0830-0900 (Thurs) Media Europe
2130-2200 (Thurs) FT Eastern Europe Report
0830-0900 (Fri) FT Business Weekly

Sky News
0130-0200 (Mon), 2130-2200 (Thurs), 0530-0600 (Fri) FT Business Weekly

SATURDAY

CNN
0900-0930 World Business This Week - a joint FT/CNN production
1900-1930 World Business This Week

Super Channel
1930-2000 FT Eastern Europe Report

SUNDAY

CNN
1030-1100, 1800-1830 World Business This Week

Super Channel
1800-1830 FT Business Weekly

Sky News
1330-1400, 2030-2100 FT Business Weekly

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Tuesday June 16 1992

Hard questions from the BIS

AS BEFITS an organisation controlled by central bankers, the Bank for International Settlements is normally not an aggressive international watchdog. But this year's annual report barks loudly. Doubts about the European Community's plans for economic and monetary union have, for example, dismayed a few of the central bankers present at the BIS annual meeting. But Mr Alexandre Lamfalussy, the BIS general manager, and the staff are to be congratulated on their honesty. Otherwise, what is the point of such reports?

Emu is not the only topic on which the report has controversial things to say. In a subtle discussion of financial problems, it insists that "the benefits of deregulation and financial innovation are worth striving for. They are not, however, a free good and the costs of attaining them were underestimated."

The BIS report points to a long string of financial disasters: the developing country debt crisis; the collapse of the US savings and loans institutions; the global stock market crash of 1987; and the excessive lending both for highly leveraged transactions and for real estate. "The changes in the financial environment helped to make such collective errors of judgment more likely," it concludes, "and their implications more serious and widespread internationally."

This dismal performance poses at least four challenges to the authorities: to improve prudential regulation; to create system-wide checks and balances; to improve crisis management; and to reconsider the boundary between market discipline, on the one hand, and government involvement, on the other. Greater market discipline is needed to deal with the vagaries of a financial system unduly underpinned by the state. But shifting the balance is, notes the report, "no easy task".

The BIS is still more outspoken on trade policies. "Most industrial countries have in recent years strayed further from the free trade ideals they profess to uphold while many developing countries have taken decisive measures to open their economies." This has, indeed, been one of the most deeply depressing features of the world economy. The BIS is entirely right, even if repetition of this truth can be boring.

Where the BIS cannot be boring is on Emu, the topic of the moment. The BIS evidently feels that EC governments deserve the egg on their faces. "Having managed to spring the programme on a largely unprepared public", it remarks, governments "are now faced with debate and dissension very late in the day".

The BIS staff evidently believes that such debate and dissension are deserved. The report notes that members of the ERM have already given priority to their exchange rate objectives "even though this meant accepting tighter policies than were considered desirable on domestic grounds". Would Emu solve the problems? Not necessarily.

The report casts doubt on the assumption that a currency union would achieve price stability, noting, instead, that the objective "is inherently vulnerable to any faltering of the political consensus in support of it". It points to exchange rate policy as Emu's Achilles' heel. It warns that the agreement to link convergence criteria with a rigid timetable suggests "some risk that political considerations could play a role in the application of standards". The report also fears that efforts to meet those standards "could render exchange rate and, perhaps, budgetary policy in some countries too rigid in the next few years".

Moreover, "the possibility that large shocks with asymmetric effects will occur in future cannot be ruled out. Conceivably, financial pressures on exchange rates could increase as the effect of recent liberalisation of exchange rates is felt more fully." The BIS points to the regional problems of existing currency unions and to the case for larger fiscal transfers than seem likely. As if all this were not enough, it also worries about premature pressures for real wage equalisation.

This watchdog is barking loudly. Government may be inclined to shrug its shoulders. Given the source of the warning, it should think carefully before doing so.

Packaging mess

THE European Community produces an annual 50m tonnes of waste from the packaging of consumer and industrial goods. It is an environmental mess in voters' own backyards. Unfortunately, individual governments around Europe are tackling the problem in counter-productive ways.

The EC's attempts to decide harmonised rules and targets for disposal of packing refuse have become badly bogged down. A planned directive on packaging waste has gone through four preliminary drafts in the past 18 months. But the Commission will now probably wait until after the summer break before formalising a final proposal. The measure will not pass into national law before 1995 at the earliest.

A viable packaging directive is badly needed to accompany next year's single market. Proliferating national regulations and systems, unless checked, could become not only a symbol of lack of common policies on the environment, but also a serious impediment to trade.

The packaging impasse underscores the difficulties of bridging gaps among richer and poorer states. Common rules must be acceptable both to the "green" north and to less environmentally-conscious Mediterranean states. The Commission aims to reduce sharply volumes for final disposal by increasing the proportion of packaging re-used in industrial processes, either by recycling, or through material or energy recovery (for instance, incineration).

The Commission wants countries to recover or recycle 90 per cent of all packing waste output over 10 years, compared with the present average of 18 per cent. Ambitious objectives like this are needed if industry is to provide the necessary technological solutions, but the EC must take care lest it sets across-the-board targets which, for difficult products like plastics, cannot be met.

Germany has led the way in the greening of packaging laws by tightening industry's obligations to take back and re-use packing material. Other countries have also introduced tough national schemes.

A packaging free-for-all causes three sets of problems. First, if countries introduce rules banning or restricting, say, beer in non-returnable bottles, this amounts to a restriction on trade – discriminating against both importers and companies from different regions of the same country. Second, targets and collection systems may be uneconomic. Surplus waste collected in one country can spill into other countries, depressing material prices and hampering recycling schemes. Third, poorly-thought out recycling networks can produce an overall negative environmental impact when all the energy and pollution costs are taken into account.

The EC must seek to marry principles of environmental soundness with measures which do not fragment and distort markets. Its packaging strategy must rely on economic incentives as far as possible. Above all, governments must show the political will to knit together the present regulatory patchwork into a cohesive whole.

Speedy action to break the packaging logjam would be a welcome sign that – whatever the clouds over the Maastrict process – the Community can maintain momentum in a vital area of its business.

County Hall

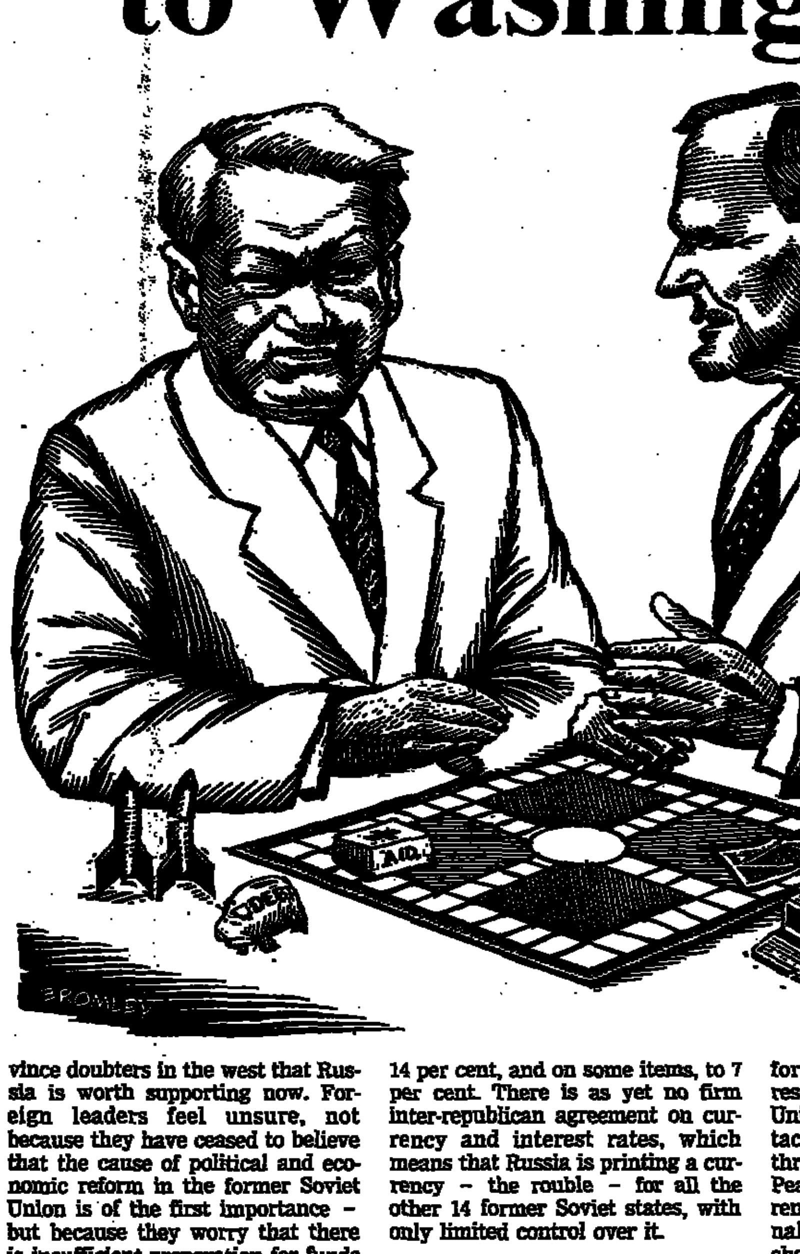
THE GOVERNMENT should think again about its declared intention to allow a Japanese developer to purchase London's County Hall, and instead support the bid by the London School of Economics to inherit the building.

The nationality of the developer is irrelevant. It is a straightforward matter of public interest. County Hall is London's foremost vacant public building; the LSE is the country's foremost social science university and among London's most prestigious public institutions, in urgent need of improved accommodation – and with a very strong claim to a commanding location in the capital. Its plans for County Hall have other features which justify a prime-site venue, notably a national "social science park" and a relocated civil service college. County Hall might also make an appropriate base for ministers and others too grand to move to Canary Wharf, but soon to be homeless with the demolition of the Marsham Street complex.

There is, of course, a price to be paid – about £120m in income foregone and conversion costs. That is a modest sum. It may be no sum at all taking into account the LSE's future needs and the yields to be gained from giving it greater national prominence.

Economic reform and nuclear arms cuts are on the table at the first US-Russia summit, write George Graham and John Lloyd

Mr Yeltsin goes to Washington



When President Boris Yeltsin and President George Bush meet in Washington today for their first formal summit, their talks will be a far cry from the tense, superpower summitry of the Cold war.

Mr Mikhail Gorbachev used to come to Washington to give up his malign inheritance – arms, imperial control and domestic oppression. Now, Mr Yeltsin, the closest there is to his successor, comes to ask for aid to build a foundation for a free Russia. "I do not come to Washington with hand stretched out," he told the Izvestia newspaper last week: but in fact, he must.

There is little that Mr Bush can do to fulfil Mr Yeltsin's expectations in the economic arena, but the meeting may provide a useful dress rehearsal for the summit of the Group of Seven leading industrial nations in Munich next month. Ironically, the most visible achievement of the summit may be that the two leaders will agree on further cuts – perhaps radical ones – in their respective arsenals of strategic nuclear weapons, a more traditional focus for Cold war meetings.

The evaporation of superpower hostility, however, has robbed disarmament of some of its urgency. Economic relations have replaced security at the heart of this summit, and both presidents need to demonstrate that they have formed a new partnership capable of addressing the formidable challenge of integrating the former Soviet republics into the global economy.

Mr Yeltsin needs western support to make the shift to a market economy and for political stability. Mr Bush, for his part, needs to demonstrate in the field of foreign affairs the leadership which few believe he has shown on the domestic stage. Opinion polls show that foreign affairs are still Mr Bush's strongest suit with voters and represent one of his best hopes for turning his lacklustre re-election campaign.

Neither side, however, can boast that it has lived up to the bargain sealed only a few months ago, when Russia seemed embarked on a head-long rush to capitalism and democracy, with a $24bn package of western aid to ease the transition.

Mr Yeltsin, hindered by the Russian parliament, has made slow progress at putting together and implementing economic reforms. He has also disappointed the west by his hesitancy over dismantling the Soviet war machine.

Mr Bush has found it no easier to get his own legislature to do his will. Many congressmen are embarrassed by their failure to act on Mr Bush's Russian aid bill, and Mr Bush shares in that embarrassment because so far his efforts on its behalf have been lukewarm.

Mr Yeltsin's shopping list for the summit has already been advertised. He wants access as soon as possible to the $24bn package put together by the G7 and the International Monetary Fund (IMF) – and beyond that, as he told Izvestia, to the private investment which he hopes will come once a programme to execute reforms has been agreed with the IMF. He wants a five-year moratorium on Russia's hard currency debt of more than $80bn, more than $60bn owed to western countries. He wants an end to the rules which prohibit certain high-technology exports to Russia.

While Mr Yeltsin will make these demands in Washington, his real audience is the G7 leaders in Munich. They alone can unlock the $24bn package. But the summit does give Mr Yeltsin the chance to convince doubters in the west that Russia is worth supporting now. Foreign leaders feel unsure, not because they have ceased to believe that the cause of political and economic reform in the former Soviet Union is of the first importance – but because they worry that there is insufficient preparation for funds to be used properly.

Mr Yeltsin last week explained that the introduction of ministers with industrial backgrounds into the government did not mean that the reform effort under Mr Yegor Gaidar, now prime minister, was blunted; that his refusal to free oil prices as the IMF had wished was a decision taken to preserve social peace; and that "I will not allow deviations from reforms ... I do not give in to pressure."

He, has, though, some more explaining to do. The privatisation programme has been delayed and has, in any case, been tiny; nor has a privatisation code been approved although Mr Yeltsin last week said that he would "bring a surprise to the US".

The Russian parliament, however, continues to thwart the president and to stall on privatisation. Last week it also indicated it would seek to pass a law cutting value added tax – the main source of government revenue – from 28 per cent to 14 per cent, and on some items, to 7 per cent. There is as yet no firm inter-republican agreement on currency and interest rates, which means that Russia is printing a currency – the rouble – for all the other 14 former Soviet states, with only limited control over it.

Mr Yeltsin remains a reformer. But, although he is unchallenged by any serious contender, he is not surrounded by people of a like mind. He must placate an industrial lobby of growing power and frustration if he wants to keep production going and avoid strikes. He cannot alienate his military, and he cannot wholly ignore his parliament. He has, for much of this year, used his popularity to support a government which raised prices, but has drawn back from pushing on with reform which would also raise unemployment.

But the Russian parliament has little incentive to implement reforms so long as the US fails to pass the legislation for its own share of the G7 package.

The grandly titled Freedom Support Act is a repackaged hodge-podge of legislation, most of which had been already proposed by the Bush administration in different forms. It includes the repeal of restrictions on trade with the Soviet Union and measures to expand contact between the US and Russia through organisations such as the Peace Corps. Its core, however, is a renewed attempt to win congressional approval for the US's $12bn share of a $60bn capital increase for the IMF. This increase is not in itself directly linked to Russia but, without it, the IMF will soon run short of money to carry out its plans both in Russia and elsewhere.

When the act was launched in April there seemed to be a ground-swell of feeling in Congress that aid for Russia was important enough for members to swallow their traditional reluctance to vote on foreign aid in an election year.

The Los Angeles riots may have slammed shut this window of opportunity by shifting political attention back to domestic issues, and some congressmen blame Mr Bush for not pushing it open again. Wherever blame lies, Mr James Billington, the librarian of Congress and an expert on Russian history, calls the US response to the crisis in Russia "hesitant in tone, trivial in content, humiliating in impact".

According to this analysis the US is treating Russia merely as an economic supplicant, like other developing countries, rather than as a still potent superpower. In spite of its floundering reform programme and the apparent quenching of its military ambitions it retains a mighty nuclear arsenal and an entrenched military establishment which continues to wield influence.

Russian troops are still engaged beyond their frontiers in sporadic hostilities with the Moldovan forces in the TransDnestr areas, and show no signs of being withdrawn, in spite of Mr Yeltsin's promise that they would be. Nor is there any agreement to pull Russian troops out of the Baltic states – though, again, Mr Yeltsin has promised Mr Vytautas Landsbergis, the Lithuanian president, that they would come out soon.

The west has made little public complaint over the lack of withdrawal so far: but it cannot remain indifferent to the continued stationing of Russian forces on foreign territory against the wishes of the host country.

Mr Yeltsin has stressed that the army is under his control. He says it is "close to us" and that "another coup like that of August is impossible". The possibility of a rebellious military has not appeared to US and Russian arms negotiators to be sufficiently imminent to lend any urgency to cutting their nuclear arsenals beyond the levels agreed last year in the Strategic Arms Reduction Treaty (Start).

Mr Bush has proposed cuts that would bring each side down to 4,700 warheads and eliminate intercontinental ballistic missiles with multiple warheads, or Mirved ICBMs. The US administration views these weapons as destabilising, because of the tempting target they make for an opponent considering a first nuclear strike, and the parallel temptation for their owner to launch them quickly to pre-empt just such a strike.

The problem for Mr Yeltsin is that Mirved ICBMs such as the 10-warhead SS-18 make up about 60 per cent of his nuclear force. Mr Jack Mendelsohn, deputy director of the Arms Control Association, a Washington group which studies disarmament issues, says that the elimination of these weapons would leave Russia short of the 4,700 warhead force Mr Bush has proposed.

Mr Yeltsin, therefore, wants a reciprocal reduction in the US's submarine-launched Trident missiles, carrying 3,456 warheads after Start. American conservatives, such as Mr Douglas Seay of the Heritage Foundation, a Washington-based think tank, argue that the Russian demand is based on an outdated insistence on nuclear parity. "The US is not a threat to Russia and does not need to be defended against, any more than Britain or Japan need to protect themselves against America," he said last week.

Both sides seem anxious for an arms agreement but, however significant, this would be the icing on the summit. Its centre will be the political embrace between the two presidents, whose personal relationship has until now been frosty, and the economic partnership they could build between their countries.

Mr Bush has the opportunity to don the statesman's mantle and demonstrate his own and his country's leadership in the task of anchoring Russia to the international community.

Mr Yeltsin, though he hates the role, must play the junior partner. In Washington, and again in Munich, he must convince his western counterparts that he is serious about reform, if he wants his demands to be met.

Joe Rogaly

The right to sue Mr Rat

Mr Andrew Toad has every right to publish extracts from Mr Andrew Rattlesnake's book about Princess Diana. Mr Rupert Rat breaks no law when he profits from the croakings and slitherings of his employees. They are all exercising – I nearly said exploiting – the freedom of the press. They have every right to do so.

The law should not be changed to prevent this. The First Amendment to the constitution of the United States is a model for us all. I would go further. Sooner or later Britain's parliament must pass a Freedom of Information Act. Mr John Major's strategy, which is to release almost as much information as would such an act, while maintaining control over the process, is likely to turn out to be an inadequate substitute. The Civil Service will almost certainly make it so.

What is required right now, however, is a law to protect individual privacy. As it says in Article 8 of the European Convention on Human Rights: "Everyone has the right to respect for his private and family life, his home and his correspondence." The new law should not prevent publication. That would be censorship. It should, however, enable any citizen who is treated as the princess has been to sue, sue and sue again – and, with luck, to win the kind of damages that would have Messrs Toad, Rattlesnake and Rat crying all the way from the bank. The US courts have established the tort of intrusion into an individual's privacy. Canada, France, Germany, Denmark and the Netherlands have privacy laws. Parliament should set the ball rolling in Britain's courts.

The minister in charge of deciding whether it will do so is Mr David Mellor, the secretary for the national heritage. When he was a junior minister at the home office a couple of years ago he said that the press was drinking in "last-chance saloon". His implication was plain. The excesses of the tabloids had to cease, or parliament would curb them. After the Calcutt committee on privacy reported in June 1990, everything was put on hold while the newspapers tried self-regulation. What has transpired has been more like self-abuse.

Yet Mr Mellor faces a delicate problem of balance. People have been upset by the tales told about Princess Diana. If false, they are libellous. If true, they are unacceptably intrusive. Against that there is the government's debt to the Tory tabloids for their support during the recent general election. Messrs Cockroach, Scorpion, Weasel and Viper were indefatigable in their efforts to misrepresent Labour policy. Can these distinguished gentlemen, some of them knights, now be denied their reward? May they not continue to enjoy the unfettered right to tear the heart out of any individual, high or low, in the name of a spurious public interest? Mr Mellor, who has not always been written up to his own complete satisfaction, will doubtless deliberate with care before advising the prime minister.

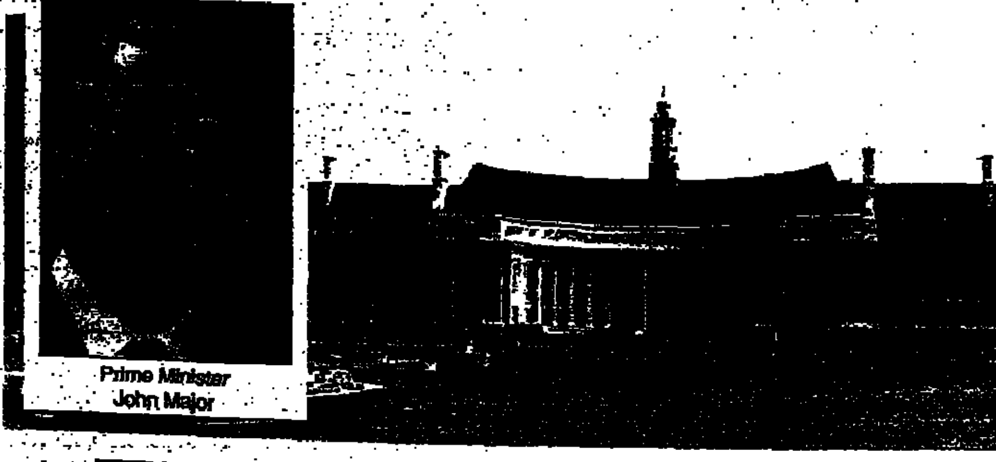
You could sue doorsteppers with cameras and notebooks for 'watching and besetting' your home

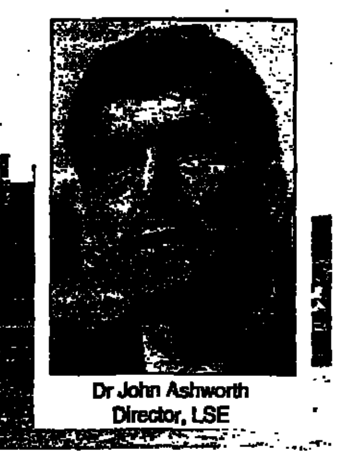
He should think thrice before accepting the Calcutt recommendation that media intrusion into private property without consent, and for the purpose of obtaining personal information, should become a criminal offence. It might create martyrs for the wrong cause. Sir Louis Blom-Cooper QC, Justinian of the FT, favours a tort of "unwarranted invasion of privacy", subject to a public interest defence. The courts could build on that. Mr Mellor should also consider the rifle-shot strategy propounded by Mr Geoffrey Robertson QC, a media expert. Specific documents, such as hospital records or stolen documents containing intimate personal details, would be protected. Following the US precedent you could sue doorsteppers armed with cameras and notebooks for "watching and besetting" your home.

It may be that none of this would help the princess. If the royal refusal to go to court were to persist, the law of privacy that I favour would not protect them. If the Prince of Wales or his wife did sue under such an act they would come up against a public interest defence, which a jury might accept.

I have no knowledge of whether the princess has tried her utmost to prevent her friends from spreading information about her, or whether she has acquiesced in their co-operation with the author. If she has acquiesced, Messrs Toad and Rattlesnake would have nothing to fear from a privacy law. Yet I believe that even royals should have a chance to sue the socks off any Brute of The Beast who unjustifiably intrudes upon their private lives.

Iago, who would have made an excellent tabloid editor, tells us that the theft of one's good name is the greatest of all. The law of libel prevents such an outrage if the allegations are untrue. But purveyors of true intimate personal details break into the lives of their victims and steal their privacy. Only a genuine public interest can excuse such behaviour. The law should enable juries to determine where the public interest lies.


Prime Minister John Major


Dr John Ashworth Director, LSE

Politics raises passions in riverbank rumpus

The competition to develop London's County Hall is focusing on Whitehall, report **Robert Thomson** and **Andrew Adonis**

Ever since Mr Ken Livingstone, the Greater London Council's last leader, preached defiance at the Thatcher government from its roof, London's County Hall has been a source of fierce controversy. It is now as acute as ever. The Thames-side buildings are in the hands of a Japanese developer, but they are keenly sought by the London School of Economics. The LSE wants to swap them for its cramped site off Aldwych, and is pulling out all the stops to get them.

The School has strong backing, and not just from a broad range of London luminaries. A cross-party Commons motion to be tabled today calls on Mr Michael Howard, the environment secretary, to delay the sale "whilst full and detailed consideration" is given to the LSE's proposal.

Its success will probably turn on the moods of two individuals, Prime Minister John Major and Mr Takashi Shirayama, the Anglophile whose Shirayama Shokusan company bought County Hall earlier this year. Mr Major returns from the Earth Summit to find rumours swirling about his imminent intervention in the deal, while Mr Shirayama, is increasingly frustrated by the political controversy that came with the buildings.

The LSE's campaign against the Japanese purchase echoes painfully in Mr Shirayama's ears. The chirpy 45-year-old Osaka businessman has a certain sympathy for the institution, but not for its argument that the site's fate should be determined by non-financial considerations. Of particular concern to Mr Shirayama are the persistent whispers that he is another got-rich-quick Japanese speculator who may not have the resources to develop the site. He wants it to be known that he is an eighth-generation Shirayama, that his family's wealth resides in extensive land holdings in the Osaka area, that he is of modest taste and does not regard County Hall as anything more than a sound business venture.

"I am not obsessed by money, but the County Hall project should be commercially viable and the LSE proposal is not. We have chosen British architects who will make a realistic plan, and we are very aware of the concerns about the building's heritage," said Mr Shirayama, who admires Arnold Toynbee and Shakespeare.

Professing a deep love of things British and American is not, however, enough to ward off the LSE, which argues that County Hall is a public building which should be employed for more vital national purposes than the hotel, shops, convention space, sports club and disco complex that Mr Shirayama has in mind.

Dr John Ashworth, the LSE's ebullient director, has spent the last 18 months campaigning to move the School, Britain's foremost social science university.

He is not solely concerned with raising the LSE's profile and prestige: the extra space available at County Hall would, he says, make an ideal base for outside bodies to rent for applied research – embracing everything from City analysts to highly specialised research institutes. The net cost of the LSE scheme – after refurbishment and disposal of the School's present site – is set at around £60m.

The contract has an escape clause that allows the government to change its mind

"There could be no more appropriate use for County Hall," says Dr Ashworth. "All we are asking is for the government to take a broad view of the issue – and not to determine the future of this prize national asset on the basis of a one-off financial gain."

The vision is appealing but it has yet to inspire a change of mind at the London Residuary Body (LRB), the quango charged with disposing of the assets of the Greater London Council and the Inner London Education Authority, which occupied County Hall until its abolition in 1990.

In purely financial terms, the Shirayama offer – estimated at a net £50m to £60m – is too good for the LRB to refuse. The LRB is legally obliged to obtain the best price possible in its asset sales, unless otherwise directed by the environment secretary. But the deal, signed in March, is not yet done, as the contract has an escape clause that allows the government to change its mind before the year is out, subject to a penalty fee which rises the later it is invoked.

In the House of Lords last week a government spokesman pledged to "weigh very carefully" the LSE's case. Ministers are reportedly divided on the matter. Mr Michael Heseltine's departure from the environment department is a plus for the LSE: Mr Michael Howard is thought to be more open-minded, with positive enthusiasm for the LSE from sections of the employment and education departments. The Treasury, though, is none too keen on the projected cost of transferring the LSE, and the climate surrounding public spending claims by ministries could hardly be more hostile. The environment department's current line is that responsibility remains with the LRB – and that it will unpick the Japanese deal only after the LRB asks it to do so.

Given the divisions in the cabinet, Mr Major's personal intervention will be needed to get the LSE across the Thames. The prime minister's scepticism about the value of academic qualifications is renowned; but the LSE is convinced he can be won over.

In any event, a review of the decision would involve a closer look at Mr Shirayama. This may, however, prove difficult. His insistence on privacy has meant that he is little known outside Osaka, even though he came 20th on the list of individual Japanese taxpayers last year, having given over Y1.1bn (£4.7m) to the government.

There are no accurate estimates of his total wealth. He claims ownership of 70,000 tsubo (about 231,000 square metres) in the Osaka area, and has the McDonald's franchise in the region, oil and liquor distribution businesses, and a chain of sports clubs.

Under his guidance, Shirayama Shokusan has ventured abroad, buying a Madrid hotel, the Villa Magna, for £48m in 1989 and investing $70m in a Pacific resort near Guam. These investments were the first overseas ventures by the company since the pre-war period, when some of the family fortune was lost in Manchurian industrial projects.

The financial basis of the company seems, however, to be secure. In Japan, Mr Shirayama escaped the worst effects of the recent sharp falls in Japanese asset prices by selling his Tokyo stock investments four years ago. His disposal were prompted by a Bank of Japan report warning of the dangers of rapid appreciation in real estate and share prices. "I was influenced by that report. Now I keep all of my money in the bank. I am not interested in buying stocks again," Mr Shirayama said.

An official at the Osaka Chamber of Commerce who has attended meetings with Mr Shirayama said that he has a reputation as a modest and likeable individual: "He is regarded as a very clean businessman. He's not one of these gang types or someone who made a lot of money from speculation. He's very solid."

Mr Shirayama remains confident about County Hall's commercial prospects, in spite of the property problems down river at Canary Wharf. But he is concerned by the gathering political clouds over his purchase. "I want nothing to do with the politics," he pleads.

No such disclaimer issues from Dr Ashworth, who recognises that politics, and politics alone, will determine County Hall's future.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

Slovak Republic needs foreign investment to halt Czech split

From Dr Chris Doyle.

Sir, Your leader "A state well worth saving" (June 9) highlighting the present instability in the Czech and Slovak Federal Republic (CSFR) presented the case for EC intervention. It is important to assess carefully what form the assistance should take. Economic data reveal that encouraging more foreign direct investment (FDI) to the Slovak Republic (SR) should redress the imbalance in economic development since 1991 and arrest the Slovaks' desire for separation.

The most striking difference in the economic data between the republics is in unemployment. In May the rate was 11.3 per cent in the SR and only 2.8 per cent in the Czech Republic (CR). In 1991 investment in the CSFR fell by 33.8 per cent, and the output of the primary and secondary sectors declined. The tertiary sector (banking, insurance, etc), however, grew significantly. The CR has suffered far less unemployment owing to the expanding tertiary sector, the reduction in transfers from the CR to the SR and to the bias in FDI to the CR, which receives at least 80 per cent of the total.

A study on the relationship between the two republics by Ales Capek of the Institute of Economics, Prague, shows that economic conditions for the two republics in 1991 had no marked differences, except that the CR transferred large sums to the SR. The closeness of the CR to west European markets gives it an advantage in attracting FDI and cushioning transition costs.

If the EC wishes to encourage stability and preserve the CSFR, then it should act very quickly to provide strong incentives for European companies to invest in the SR.

Dr Chris Doyle,
department of applied economics, Cambridge, and the Centre for Applied Economic Research and Graduate Education, Charles University, Prague

A single currency in fact if not in name

From Mr Christopher Johnson.

Sir, "A Big Idea is still needed, in default of the Maastricht ambitions, to hold European currencies together" (Samuel Brittan, Economic Viewpoint, June 11). The Big Idea is the single European currency. It is central to the Maastricht Treaty. Mr Brittan is keener on the exchange rate mechanism (ERM) than on economic and monetary union (EMU). Yet the ERM is, as Sir Alan Walters pointed out, half-baked. Mr Brittan's ideas for developing the ERM can be carried out only by moving through stages two and three of EMU as agreed in the treaty by all 12 EC governments.

The convergence on price and exchange rate stability which Mr Brittan wants can be achieved only by a mutual discipline of the kind laid down in the treaty. As long as the ERM allows for realignments, national politicians, as devaluers of last resort, will want to be free to use them, and fixed exchange rates will lack credibility in the markets.

Mr Brittan's market-based approach to competing currencies will not work as long as governments maintain laws which discriminate against foreign currency in favour of domestic currency.

The importance of legal tender laws (in the wider sense of that term) has not, as he claims, been exaggerated, but underestimated.

There will inevitably be a transition period in stage three of EMU when national currencies are completely fixed, as Mr Brittan wants, and the ecu is still a parallel currency.

We will have a single monetary policy, and thus a single currency in fact if not in name. The Maastricht Treaty wisely does not go into detail on such points, but it provides the framework within which they can be settled later.

Christopher Johnson,
UK adviser,
Association for the Monetary Union of Europe.

Lack of trust from a trigger-happy bank

From Mrs Christine Caton.

Sir, I agree with Michael Proudlock's observations regarding the banks' recent doctrinaire policy of calling in investigatory accountants to examine customers' affairs.

A City firm was invited to investigate the accounts of one of our firm's client companies. The report was favourable in terms of the business and future prospects. It was recommended that the bank continued to support the business.

However, the bank has not eased its position for running the account. It has only agreed to finance the cost of the investigatory accountants' fee by adding it to the overdraft. The attitude is still in my opinion one of intransigence, doubt, continual harrassment and interference.

Venture capital and working capital finance should be provided from sources away from the major clearing banks so that small businesses may have access to them. A new market would develop whereby new relationships could be built up, and reasonable profits made by providing a real service to small businesses. When will such entrants be forthcoming?

Christine Caton,
Caton & Partners,
Chartered Accountants
8 The Shrubberies,
Essex House,
George Lane,
South Woodford, London

Yeltsin view on energy prices

From Mr Jeffrey D Sachs.

Sir, I was perplexed and disturbed by John Lloyd's article, "Yeltsin signals change in economic policy" (June 1). It states that Yeltsin has signalled a "sharp change of course in Russian economic policy in the face of rising public discontent". The article is based largely on Yeltsin's comments to Jacques Delors, European Commission president, about social discontent in Russia, and on Yeltsin's objections to an immediate rise in energy prices to world levels. John Lloyd seems to have greatly over-reacted on both points.

First, and most seriously, Delors' remarks seem to have been misconstrued. The essence of Delors' remarks, according to the text of his news conference, is quite different from your article's interpretation. In fact, Delors stressed that Yeltsin remains committed to the reforms; committed to higher energy prices; and, in fact, committed to an *acceleration* of the reforms.

As for oil prices, John Lloyd should know that the International Monetary Fund is not demanding an immediate introduction of world prices for energy, but rather a phased increase over a period of years. Thus, Yeltsin's recent statements about the need to raise oil prices gradually do not signal any fundamental conflict with the IMF or a change of course of Russia's reforms.

Russia's situation is difficult enough without prominent news stories that create an exaggerated sense of instability. I hope you accept these comments as constructive. I regard the FT as the highest quality financial newspaper in the world. I rely heavily upon it (and John Lloyd's reporting), and am grateful for your consistently superb standards.

Jeffrey D Sachs,
Galen L Stone professor of international trade,
Harvard University,
economic adviser to the Russian government,
Cambridge, Massachusetts

The case for proceeding with the Jubilee Line extension

From Mr P L Rubie.

Sir, Your correspondent Richard Tomkins failed to address the wider issues in his analysis of the Jubilee Line extension ("No jubilation at the end of the line", June 5):

● The development of Docklands as a commercial centre to supplement the existing City and West End will help to spread the load from those established areas where the pressure on the existing services, particularly transport, is too great.

● The Jubilee Line will provide a much needed new link to the Underground network from Waterloo and London Bridge mainline stations (north of the river). This will improve mobility for commuters around the whole of central London and again will spread the load and take some of the pressure off the existing Underground interchanges north of the river.

● The Jubilee Line extension will create greater accessibility to the consistently deprived south-east and east London areas and this accessibility will enhance the opportunity for increasing economic activity in these areas.

A forward thinking London should wish to enhance accessibility over a much wider area of the centre if it wants to maintain its status as one of the premier world financial centres as well as enhancing its prospects for increasing market share against world competition through to the next millennium.

Far from shelving the project, the financial case for immediately proceeding with the Jubilee Line extension is compelling.

If our forefathers had taken your correspondent's view, we would not have today's underground network at all. Much of it was built into green fields. Economic activity followed the newly created accessibility.

Paul Rubie,
Flat D,
13 Crediton Hill,
London NW6

OBSERVER

NatWest's fast track

■ The speed with which portfolios and titles are changing hands at the top of National Westminster Bank is such that no one should be surprised that Martin Owen, the man from the Salvation Army with a PhD in business administration, should beat NatWest veteran Roger Byatt for the plum job of running NatWest Markets. NatWest chairman Lord Alexander seems determined to give his forty-somethings their head and long service in the bank seems more of a liability than an asset these days.

Owen, who has done everything from setting up and selling his own financial services business to supervising dodgy banks in the Isle of Man, certainly has a much broader range of experience than the typical NatWest banker. Even so, the pace of his promotion since joining NatWest is unusual. It is the sort of appointment that Midland Bank used to make when it was struggling to find its feet a few years ago. Owen may well turn out to be an excellent choice but one wonders what sort of signal his appointment is sending to anyone in NatWest who is approaching 50 and has not been mentioned in dispatches recently.

Chile sauce

■ Journalists are not the only craftsmen sharpening knives ahead of the US presidential election. Chilean woodcarvers are also hoping to make their mark with thousands of six-inch-tall Dan Quayle dolls.

The dolls are a version of the "Randy Indian", a souvenir which tickled the veep's fancy when he visited Chile three years ago. His purchase of the saucy memento – which give a whole new meaning to the term "pop-up" – got more mileage in the US press than the rest of his Latin American tour.

"I am getting several orders from delegates to the Democratic convention," says Steve Anderson, a US businessman living in Chile. "But I think they will also be popular among Republican delegates in the Pat Buchanan camp." Despite recent allegations about the Democratic front-runner's past, Anderson has no intention of marketing a Bill Clinton version; he is working for Clinton.

Under fire

■ A strong sense of *déjà vu* at the Stock Exchange. Chief executive Peter Rawlins spoke yesterday of the "very considerable progress" made in the past 12 months on building Taurus (the new settlement system) and developing new market trading mechanisms.

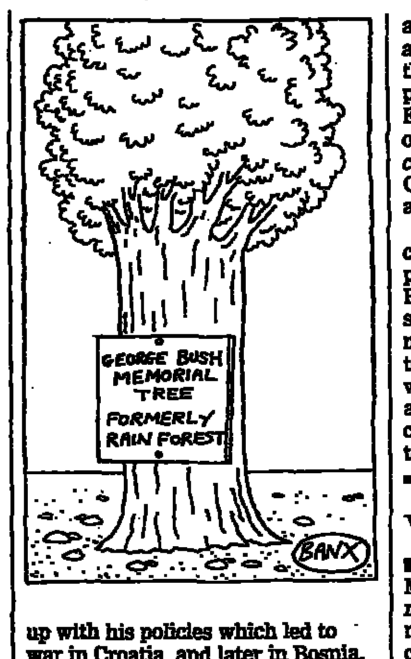
This time last year he said much the same. Indeed, it seemed then that Taurus would have been launched by now, and the new market would have been created. To the outside world, not much has changed.

Will Rawlins still be there, making optimistic projections, next year? With the Exchange's redevelopment plans seemingly endlessly stalled, it gets increasingly difficult to find people willing to back him. Rawlins has always said that he needs to run fast to keep ahead of the arrows aimed at his back. The pace is getting faster all the time.

Telling friends

■ Offers are already landing on Slobodan Milosevic's desk just in case the Serbian president could be persuaded to step down.

US congresswoman Helen Bentley saw the president in Belgrade recently and suggested he could become head of a US-Belgrade bank. He could perhaps even move to the US if he was getting a bit fed



up with his policies which led to war in Croatia, and later in Bosnia. The president, we hear, has refused. But stranger things have happened.

After all, back in the early 1980s, Milosevic ran Beobanka, the Belgrade bank, and had lots of friends in the US, including deputy secretary of state, Lawrence Eagleburger, and Brent Scowcroft. Both, incidentally, served time in the US embassy in Belgrade. Maybe that helps explain why the US was slow to come down hard on Milosevic.

Heavy artillery

■ GPA's complaint to the European Commission that the membership rules of the FT-SE 100 Index discriminate against Irish companies raises the intriguing possibility of a head-on confrontation between past and present competition commissioners.

Peter Sutherland, Brussels' competition watchdog until 1988, is now a non-executive director of the aircraft leasing company and chairman of AIB Group, another Irish company piqued by the FT-SE 100 steering committee's policy. And if that is not enough EC competition clout to be going on with, Sutherland's *"chef de cabinet"* in Brussels, Richard O'Toole, also now works for GPA as its official Irish mouthpiece.

Sir Leon Brittan, the current commissioner, has nothing but praise for Sutherland's work in Brussels, but if he decides to take sides against his predecessor he may find himself accused of "trying to defend the indefensible". That was the charge Sutherland levelled at Peter Jones, the index steering committee's chairman, in a letter to the FT in April.

Vocation

■ Whatever official dates John Major may have to keep as prime minister, he is apparently mystically bound to one in the coming weeks.

Inhabitants of the Castilian village of Candeleda have no doubt that he will grace them with his presence again this summer after they put up votive candles at the local shrine and prayed for his return.

The recipient of this miraculous piece of news is reliably reported to be none other than Catali, the Spanish wife of Tristan Garel-Jones, foreign office minister whose country home was lent to the Majors last summer.

Exceeding small

■ Prospectus writers strive for accuracy and clarity, but sometimes go a little too far. According to the pathfinder prospectus for Kenwood Appliances, small kitchen appliances are small appliances designed for use in the kitchen, rather than, presumably, appliances to be used in a small kitchen. Though, if you had them all, you would need a bigger kitchen . . .

FINANCIAL TIMES

Tuesday June 16 1992

Parliament passes controversial bill, but opposition warns of 'deep scars'

Japan to let troops serve abroad

By Stefan Wagstyl in Tokyo

JAPAN'S parliament passed a controversial bill yesterday to allow Japanese troops to serve in United Nations peacekeeping forces, ending a long legislative battle.

The bill, which has caused deep divisions in Japan, authorises the first despatch of Japanese soldiers overseas since the second world war. Their first assignment is likely to be on the UN's peacekeeping mission in Cambodia.

The bill was passed by 329 votes to 17 in the Diet's 512-seat lower house in spite of intense opposition by the Social Democratic and Communist parties. The social democrats boycotted the proceedings in a last-ditch effort to block the bill and tendered their resignations en masse.

Mr Makoto Tanabe, Social Democratic party chairman, said the bill would leave a "deep scar". Mr Kiichi Miyazawa, prime minister, hailed the bill, saying Japan would be able to send personnel on UN missions.

The bill's origins date back to the Gulf crisis, when the government mooted the idea of sending Japanese troops to serve in non-combative roles in the US-led coalition forces.

But the proposals were dropped after provoking public protest, with many Japanese arguing that to send troops abroad, even on UN missions, would infringe the country's pacifist constitution.

Asian countries, notably China, also expressed concern about a possible revival of Japanese militarism.

New proposals were eventually passed by the lower house in December. The bill authorises Japan to send up to 2,000 troops on UN missions. But they may only serve in non-combative roles unless the Diet revises the legislation to allow for front-line duties.

The ruling Liberal Democratic party tried to accommodate the views of opposition parties by watering down the bill. But, when the measures were put before the upper house early this month, the Social Democrats and Communists redoubled efforts to block them, hoping to provoke enough public protest to force the LDP to drop the legislation.

All parties jockeyed for position with an eye on July's elections to the upper house. The opposition resorted to a slow-voting technique, called the ox-walk, in which members edge towards the ballot box an inch at a time.

A poll conducted at the weekend by TBS, a television station, showed 55 per cent against the bill and 32 per cent in favour, with the rest undecided.

After all-night sessions, the bill passed the upper house and was returned to the lower house for the approval of amendments. Yesterday, the Social Democratic party changed tack, with all 137 of its members tendering their resignation to the speaker. It was unclear last night whether these resignations would be accepted.

Economic downturn, Page 6

Lotus Cars to end production of loss-making Elan

By Kevin Done, Motor Industry Correspondent, in London

GROUP LOTUS, the UK sports car maker, is to cease production of its main product, the Lotus Elan, in the face of heavy losses less than 2¼ years after the car was launched.

The withdrawal from the small two-seater sports car market is expected to lead to about 350 redundancies at the 507-strong Lotus Cars division assembly plant in Norfolk, eastern England.

The company, which was acquired for £22.7m ($41m) in 1986 by General Motors of the US, blamed the failure of the Elan on "the extraordinary combination of adverse economic factors hitting our segment in key markets".

However, the car's launch was delayed; it was priced well above its main rivals, such as the Mazda MX-5; and the company never succeeded in producing it at an acceptable cost.

It has also been hit hard by disappointing sales in the US, which accounted for only 21 per cent of the 2,200 sales last year, compared with hopes by Lotus for sales of more than 1,000.

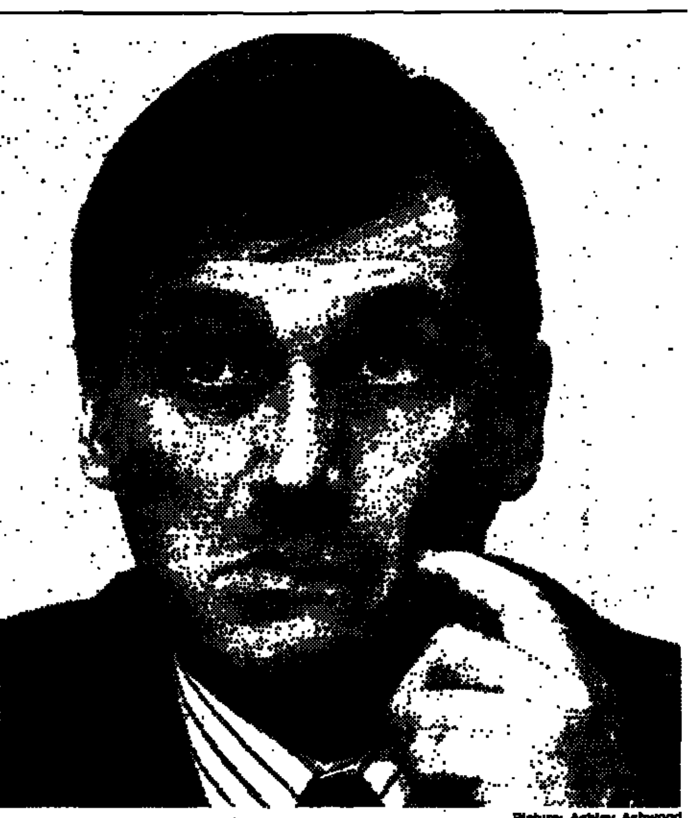
Mr Adrian Palmer, managing director of Lotus Cars, said the Elan, which sells in the UK for £20,135 to £22,720, was losing "a great deal of money" for each unit sold.

Group Lotus has reported mounting losses in recent years – from £2.1m in 1988 to £12.7m in 1990.

The early demise of the Elan, which was supposed to repeat the success of the first Elan of the 1960s designed by Lotus founder Colin Chapman, will make it one of the most short-lived new cars launched on the world market.

Development of the car, which won a prestigious British Design Award last year, was the cornerstone of the company's £54m five-year capital spending programme to 1992 which included £32m-£34m for the car operations with a new production plant for the Elan. The company said it would seek a buyer for the Elan production line.

The car was supposed to help to quintuple Lotus car production to around 5,000 next year from a modest 788 in 1987, with Elan output rising to 3,000 a year. Output peaked last year at 2,238 (including 2,060 Elans) but will now fall back to a few hundred.



Picture: Ashley Ashwood

Adrian Palmer, managing director: Elan losing a great deal

Mr Palmer said the company intended to concentrate on the more expensive Esprit, launched in 1976, which sells for £36,030-£47,790 and which Lotus intends to develop as "a showcase technology car".

Lotus still had a successful engineering consultancy and the company would have "a satellite operation building a number of cars a year", he said.

Group Lotus said its engineering consultancy and testing operations – with a combined workforce of 790 – would not be affected. There is no formal connection between Group Lotus and Team Lotus, the Formula One racing team.

UN troops may take Sarajevo airport

By Judy Dempsey in Belgrade

CANADIAN troops could take control of Sarajevo airport by the end of the week if the fragile ceasefire that came into force yesterday morning is maintained.

But a United Nations official who forged the ceasefire agreement between the Bosnian presidency and Serb irregulars said: "Anything could go wrong. We are relying on the good will of all sides to enforce the ceasefire."

Yesterday, French airport security officials working with the UN in Sarajevo again visited the airport. They said it was not badly damaged by Serb irregulars who have blockaded the airport for the past 10 weeks and have prevented food and medical supplies from reaching the Bosnian capital.

UN officials want to use the ceasefire to start to demilitarise the airport and its surrounding areas. If the ceasefire holds, Mr Boutros Boutros Ghali, UN secretary-general, will this week recommend that the security council deploy 1,000 Canadian troops, equipped with 80 armoured personnel carriers, to take over the airport.

Yesterday, the city's inhabitants emerged from their cellars into the pouring rain but few have high hopes of a lasting ceasefire. "I do not believe in it. The Serb irregulars are already sniping," said Mr Kemal Kurpasic, editor of Oslobedjne, the Bosnian daily newspaper. "If they keep sniping, the Territorial Defence might be forced to respond."

As he spoke by telephone from his apartment, a bullet ripped through his kitchen wall. "You see what I mean. This is a very fragile ceasefire," he said.

Mr Zlatan Cabaravdiz, a journalist at Sarajevo radio, said both sides were weighing up the advantages of maintaining the ceasefire. "We have seen ceasefires come and go," he said. "With this one the Serb irregulars can regroup and withdraw to the hills surrounding the city. They can shell and divide the city at any time. What would you expect the Territorial Defence to do then? Do you expect them to withdraw from the positions they hold in Sarajevo?" he asked.

Mr Kurpasic and western diplomats said Serb irregulars and Serbia's proxy army in Bosnia were using the ceasefire and international attention on Sarajevo as "a smokescreen". "There are awful things happening in other towns and cities... where the killing never stops," Mr Kurpasic said.

Western diplomats said Croat forces were consolidating their positions in Derventa and Mostar despite repeated UN requests to Croatia to withdraw from Bosnia-Hercegovina. One said: "Croatia is also using Sarajevo as a smokescreen. Like Serbia, Croatia wants parts of Bosnia too."

In Belgrade, the Serbian capital, about 10,000 students demonstrated peacefully against Serbian president Slobodan Milosevic. However, his staunch nationalist supporters delivered a sharp attack on "foreign and internal enemies" who they said were trying to destabilise Serbia through civil war. The speech was made by Mr Dobrica Cosic, 71, an ultra-nationalist who was elected president of the new Yugoslavia.

Opposition seeks Maxwell inquiry

Continued from Page 1

The FT has confirmed separately, from a source other than Mr Robison, that intelligence information on Mr Maxwell's activities had been available for some years. A full intelligence report on Mr Maxwell was prepared from files for the JIC at the time of his death on November 5 last year.

Mr Robison – a Quaker who was positively vetted by the security services in 1987 – claimed that in 1989 he saw intelligence information on Mr Maxwell from intercepted telephone conversations and faxes. The information, he said, had been distributed to government officials.

Senior government officials disputed Mr Robison could have seen signals intelligence information in autumn 1989, as he claimed.

Downing Street indicated that there were no plans to seek a prosecution of Mr Robison under the Official Secrets Act.

Government officials declined to comment on the suggestion that the intelligence services may have collected information on the Maxwell empire.

Any suggestion that the government was responsible for the late Mr Robert Maxwell's raiding of his companies' pension funds was rejected last night by Miss Ann Widdecombe, junior social security minister.

She also rejected calls for another Commons' debate or government statement on the affair. "It would be quite counter productive to react every day to every new twist of the Maxwell saga," Miss Widdecombe said on Channel Four News. She also ruled out a fresh investigation into the affair.

It also emerged yesterday that a book co-authored by Mr Peter Thompson, a former director of Mirror Group Newspapers, and suppressed by Mr Maxwell in 1988, had originally claimed that the British security services had extensive files on the publisher.

According to Mr Thompson, Mr Maxwell strenuously objected to a claim by a former MI5 agent saw no fewer than 37 assembled dossiers on the publisher.

The book, Maxwell: A Portrait of Power, was published in February 1988, without the passages in question. But Mr Maxwell's lawyers obtained an injunction to prevent further sales.

World growth held back

Continued from Page 1

Asked after the meeting about the direction of the world economy, Mr Dennis said: "We are not sure where the economy is going. We are not on solid ground here."

On supervision of banking and securities markets, he said governments had paid this area too little attention after the large increase in financial activities spurred by more liberal financial policies in the 1980s.

He called for financial companies and governments to co-operate to devise appropriate safeguards to limit instabilities in the world financial system without cramping entrepreneurial verve. "Without appropriate sanctions, the virtues of freedom of choice can easily turn into vices."

World Weather

		°C	°F			°C	°F			°C	°F			°C	°F			°C	°F			°C	°F
				Boulogne	S	23	73	Frankfurt	S	27	81	Majorca	F	23	73	Oporto	S	27	81	Tenerife	S	23	73
				Brussels	S	25	77	Geneva	S	24	75	Malaga	F	16	61	Oslo	F	24	75	Tokyo	C	20	68
				Budapest	F	25	77	Gibraltar	F	19	66	Malta	F	25	77	Paris	S	26	79	Toronto †	S	13	55
Ajaccio	S	26	79	Buenos Aires	R	17	62	Glasgow	C	14	57	Manila	F	35	95	Prague	S	23	73	Tunis	S	28	82
Algiers	S	26	79	Cairo	S	30	86	Helsinki	F	21	70	Melbourne	C	10	50	Reykjavik	F	9	48	Valencia	F	18	64
Amsterdam	S	25	77	Cape Town		-	-	Hong Kong		–	–	Mexico City		–	–	Rhodes	S	25	77	Venice	S	26	79
Athens	F	26	79	Caracas	C	29	84	Innsbruck	S	24	75	Miami †	C	24	75	Rio d'Janeiro	F	28	82	Vienna	S	24	75
Bahrain	S	38	100	Casablanca †	C	21	70	Inverness	C	15	59	Milan	S	26	79	Rome	F	27	81	Warsaw	S	23	73
Bangkok	F	34	93	Chicago †	C	18	64	Islamabad	F	39	102	Montreal †	S	13	55	Salzburg	S	24	75	Washington †	C	21	70
Barcelona	S	22	72	Cologne	S	26	79	Istanbul	F	22	72	Moscow	F	25	77	S'Francisco †	F	13	55	Zurich	S	25	77
Beijing	F	30	86	Copenhagen	C	22	72	Jakarta	R	33	91	Munich	S	23	73	Seoul	S	29	84				
Beirut	F	25	77	Corfu	S	27	81	Johannesburg		–	–	Nairobi	F	20	68	Singapore	F	31	88				
Belfast	C	15	59	Dallas †	S	25	77	Lisbon	F	18	64	Naples	F	29	84	Stockholm	F	22	72				
Belgrade	F	23	73	Dublin	C	16	61	London	S	25	77	Nassau	C	33	91	Strasbourg	S	27	81				
Berlin	S	26	79	Dubrovnik		–	–	Los Angeles †	S	15	59	New Delhi	S	40	104	Sydney	F	16	61				
Biarritz	S	22	72	Edinburgh	C	16	61	Luxembourg	S	26	79	New York †	S	22	72	Taipei	F	32	90				
Bombay	F	33	91	Faro	F	19	66	Madeira	F	22	72	Nice	S	25	77	Tangier	F	20	68				
Bordeaux	F	27	81	Florence	S	28	82	Madrid	R	13	55	Nicosia	S	24	75	Tel Aviv	F	26	79				

Temperatures at midday yesterday
† Noon GMT temperatures
C – Cloudy Dr – Drizzle
F – Fair Fg – Fog H – Hail
R – Rain S – Sunny
Sl – Sleet Sn – Snow
T – Thunder

THE LEX COLUMN

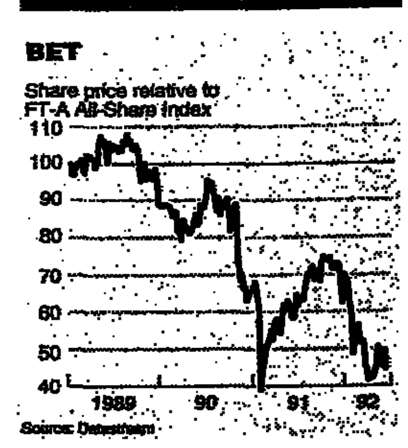
BET counts the cost

Yesterday's mere £18m of full year pre-tax profits from BET – down from £322m just two years ago – is a fitting epitaph to the company's buccaneering corporate style in the late 1980s. BET, to be sure, has been feeling the full impact of recession. But a considerable chunk of last year's damage – notably the £55m above-the-line hit for written-down assets – is explained by the abandonment of accounting policies which in sunnier times had kept earnings moving nicely ahead.

The problem, of course, was the way the balance sheet was sacrificed to the profit and loss account. This manifested itself not just in the form of acquisition provisions which masked outgoing expenses, but in lax cash management which needlessly piled on the debt. BET's cash outflow from operations between 1989 and March 1991 was almost £250m, a period in which net debt jumped from £98m to £425m. Last year's dash for cash was formidable by any standards, even discounting the disposals. The case for the shares rests to some extent on the new management team being able to keep this up. Assuming profits in the £125m-£150m range, another low tax charge and low capital expenditure bill, this year's cash inflow could leave the company broadly ungeared if the Auction Market Preferred Stock is counted as equity.

With the finances under control – although spending on fixed assets cannot be held down for ever, especially with a tougher depreciation policy – the question is what sort of margins BET can ultimately achieve on its mix of service businesses. If the answer is 10 per cent the shares at 133p are certainly cheap. To get there, however, BET will have to rely mostly on cost cutting and productivity rather than higher prices.

FT-SE Index: 2593.6 (-10.1)



National Westminster

National Westminster is quick to point out that it has several reasons for integrating the equity operations of County NatWest with its markets division. Among them are better co-ordinated marketing and back office efficiency gains. Additional business may be won as equity clients are introduced to the division's foreign exchange service. The implication is that the threat hanging over County NatWest has been lifted, even if its name will be less prominent than before. The positive tone is confirmed by the stress laid by the bank's top management on County's improving earnings record and the undoubted value of its research capacity.

Nevertheless, yesterday's reorganisation still smacks more of fudge than reprieve. County has been given a chance, but one wonders what would happen if it continued to underperform. It will be harder for outsiders to tell what is really going on. The promised cross-subsidisation benefits are probably overstated. Now they are part of the strategy, it would be even harder for management to wield the axe on County's activities. One interpretation is thus that NatWest has not only backed away from really tough action. It has become less likely that it will ever take it, however inadequate the return.

London Stock Exchange

A serious point of principle underlies the London Stock Exchange's disagreement with the Inland Revenue over the treatment of expenditure on the Taurus electronic trading system. Should such outlays, much of which involve the salaries of people engaged in systems development, be treated as capital spending and depreciated over time? Or should they be charged to profit for tax purposes as they occur? The Stock Exchange favours the latter but, in recognition of the possibility that the Revenue may determine otherwise, it has sharply increased its tax provisions for the current year.

This raises the broad question of what actually constitutes capital spending in an age where metal-bashing is giving way to high technology. Doubtless the Stock Exchange, whose aim cannot be much more than break-even plus, has an interest in charging whatever it can to profits. But Reuters says it also follows a similar policy with this kind of expenditure. Perhaps it will need a swift consultation with its tax advisers if the Revenue's view of Taurus is upheld.

Nor is the approach of the Stock Exchange entirely consistent. While it regards the Taurus spending as current for tax purposes, it shows some sympathy with its members when they complain that they are having to pay now to develop a service which will only bring benefits for future users. That makes Taurus outlays sound like capital spending in spirit, if not in law.

Electricity

Professor Littlechild, the electricity regulator, has always leaned towards a long-term view of his function. So it may be that he felt pressured by his peers into responding to the high profits of the distribution companies. No sooner had East Midlands Electricity confirmed a 41 per cent profits increase, than the regulator was indicating his concern for customers.

But Offer's annual report, published in March, discussed the drawbacks of basing price controls on a forecast of inflation. Yesterday's renewed questioning of such forecasts merely increased the likelihood that the RECs' pricing regime will eventually be based on a lagging inflation indicator. That seems sensible, not least because, if inflation begins rising again, it will not be fuelled by pre-set increases in utility prices. In that situation, the government too might see some political merit in a retrospective approach. Customers would also have to accept the obverse; that lower prices will lag any fall in inflation.

BT

Yesterday's disposal of Mitel in Canada closes a painful episode for BT. The 51 per cent Mitel stake had long symbolised the misconceived strategy behind BT's post-privatisation expansion into equipment manufacturing. As a reminder of how much it paid, the sale will be marked by a £120m exceptional goodwill write-off in BT's present quarter's figures, although that will not reflect the investment's carrying cost since 1986, nor the wasted management time. But investors in BT doubtless have more immediate issues in mind, notably how the company will cope with the tightening grip of its regulator.

FINANCIAL TIMES
COMPANIES & MARKETS

Tuesday June 16 1992

INSIDE

McDonnell Douglas delays launch of jet

McDonnell Douglas, the financially stretched US aerospace group, appears to have virtually abandoned hope of launching its much-trumpeted MD-12 jumbo jet in 1992, because of a lack of orders. The group has struggled to attract Asian investment to the project, widely regarded as crucial to its future in commercial aviation. Page 25

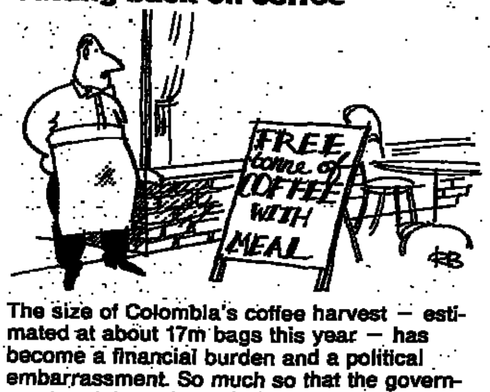
Invesco shuns pension trust

Invesco MIM, the investment company which managed £50m ($92.9m) of Mirror Group Newspapers pension funds, has no moral obligation to help pensioners and will not be contributing to a government-sponsored trust intended to provide compensation, chairman Lord Stevens of Ludgate said yesterday. "My moral obligation is to shareholders," he told the company's annual meeting. Page 28

Markets on a bumpy ride

It was another choppy week in Europe as share prices continued to weaken in the wake of Denmark's "no" vote in its referendum on the Maastricht treaty. Equities followed the bond markets down with only Germany and the Netherlands, among the majors, resisting the steep falls recorded by other bourses. Page 42

Cutting back on coffee



The size of Colombia's coffee harvest – estimated at about 17m bags this year – has become a financial burden and a political embarrassment. So much so that the government and the coffee growers are trying to devise ways of reducing production by up to 1.5m bags. Page 29

Property bonds in the doldrums

The slump in the UK property market continues to pose awkward questions for holders of bonds issued by property companies and developers. Page 26

SMI on a profits plateau

Societa Mettalurgica Italiana's (SMI) purchase of Kabelmetal, its bigger German rival, enabled it to double sales and become Europe's biggest maker of copper and alloy products. But while turnover at the Florence-based group surged last year its profits have remained static. Page 22

Double blow for Amber Day

Amber Day, the UK discount retailer, yesterday combined a profits warning with news of two resignations. Page 27

Market Statistics

Companies in this issue

Chief price changes yesterday

FRANKFURT (DM)				**PARIS (FFr)**			
Rises				**Rises**			
Lufthansa	135	+	8	Imm de France	834	+	29
Falls				**Falls**			
Asko	722	–	31	Club Med	459	–	11
Bil & Berger	985	–	13.5	Euratrance	1480	–	35
Deckel (Fr)	141	–	9	Merlin-Gerin	501	–	17
Holzmann (Ph)	1085	–	30	Radiotechn	578	–	19
Schering	720.5	–	13	Schneider	640	–	23
NEW YORK ($)				**TOKYO (Yen)**			
Rises				**Rises**			
Century Med	11½	+	¾	Dado Concrete	570	+	54
Chipcom	22½	+	2½	Tokyo Senpaku	263	+	25
Falls				**Falls**			
Barr Labs	6	–	2½	Chuo Trust	2210	–	210
Monsanto	53¾	–	5¼	Nissan Fire	1280	–	120
Philip Morris	73	–	1⅞	Toho Acetylene	220	–	20
Unicorp	23⅞	–	4	Tokyo Rope	660	–	61

LONDON (Pence)							
Rises				Clarke Foods	151	–	9
Albion	55	+	4	Eurotunnel	334	–	11
Devenish (JA)	289xd	+	12½	Expamet Intl	100	–	52
Etonbrook	70	+	4	Fisons	238	–	7
Lasmo	199	+	5	INVESCO MIM	67	–	3
Lovell (YJ)	15	+	4	Mosaic Invs	98	–	13
Lucas Inds	130	+	5	Renold	57	–	3
Moss Bros	133	+	4	Rugby	189	–	6
Tarmac	120	+	5	Treatt	121	–	8
Falls				Welpac	25	–	1½
AMEC	140	–	15	Wessex Water	479	–	15
ASW	134	–	9	Whitecroft	69	–	3
Amber Day	56	–	4				
Br Aerospace	294	–	8				

Surge in foreign bank loans in US

By Alan Friedman in New York

FOREIGN BANKS now control nearly half the commercial and industrial loan market in the US, according to a study by the Federal Reserve Bank of New York.

The study, in the New York Fed's Quarterly Review, says a recent surge in the offshore booking of foreign bank loans to US companies gave non-US banks 45 per cent of the loan market at the end of 1991, compared with 18 per cent in 1983.

The Fed study attributes the build-up in foreign bank corporate loans to two main factors:

- European and Japanese banks have enjoyed lower funding costs than their US counterparts, allowing them to accept smaller spreads on loans;
- Some non-US bank lenders, benefiting from their global presence at a time of US retrenchment, have been more attractive to many US corporate treasurers because they offer a wider range of services and knowledge of international banking.

US banks had $428bn of total commercial and industrial loans outstanding at the end of 1991, while foreign banks had $348bn. Offshore-booked foreign bank loans to US companies jumped to $152bn by the end of 1991, from $20bn in 1983, while US bank lending booked offshore rose from $17bn to $22bn. Also between 1983 and 1991, the amount of loans by foreign banks booked in the US increased from $66bn to $196bn. Loans by US banks booked in the US rose from $364bn to $407bn.

The Fed points to three implications of the rapid rise in offshore credits to US business:

- The accumulation of debt by US companies was more rapid than previously thought, and the recent drop in bank lending far less striking;
- More of the corporate funding for US companies was supplied by banks, both US and foreign, and less by the securities market than was thought;
- Commercial bank lending has become a more foreign-dominated US business sector than the US car or chemicals industries.

Mr Jim McDermott, president of New York bank analysts Keefe Bruyette, said: "There has been a gun-shy attitude on the part of many US bankers because of the three main loan debacles of recent years – the less developed country problems, the energy loan portfolio losses and the commercial real estate loan problem."

BT to lose C$256m on Mitel disposal

By Bernard Simon in Toronto and Andrew Bolger in London

BRITISH Telecommunications will suffer a loss of at least C$256m (£116m) on the disposal of its controlling stake in Mitel, the troubled Canadian telephone equipment maker.

BT, which put its 51 per cent stake up for sale more than two years ago, agreed yesterday to sell its shares to unidentified investors in Canada, Bermuda and the UK represented by Schroder Ventures, the venture capital arm of Schroders, the UK-based merchant bank.

The investors are paying BT an initial C$1 per Mitel share. They will also pay BT one-third of any profit earned from the resale of the shares within the next five years, to raise the total to a maximum of C$1.64 a share, or about C$66m.

The buyers are not planning any follow-up offer to minority shareholders.

BT bought its stake in Mitel in 1985 for C$8 per share, or a total of C$321m (then worth £160m).

The investment was intended to be the first stage of a growing presence in telecommunications equipment manufacturing. BT subsequently decided to concentrate on telephone services, and put its Mitel shares up for sale in early 1990.

Mr Barry Romeni, BT's group finance director, said yesterday: "BT has focused on its key mission of providing network-based services to customers around the world. Manufacturing telecommunications equipment is not part of this strategy and this disposal effectively ends BT's direct involvement in manufacturing."

Mitel ran into trouble with the launch of its SX-2000 mid-sized office switchboard and with the distribution of its products.

It has suffered losses for five of the past seven years. In the year to March 1992, it lost C$5.7m on revenues of C$406m. Mitel specialises in small and mid-sized office switchboards.

It has manufacturing facilities in Canada, the US and south Wales. The UK accounted for a quarter of Mitel's revenues last year. About 9 per cent of its revenues come from semiconductor products.

Mitel's share price jumped sharply two months ago on speculation that BT had found a buyer. The shares were trading at C$1.56 before yesterday's announcement, almost double their low point earlier this year.

Lex, Page 20

Shifts in technology in the consumer electronics industry could see European manufacturers gain advantage over their Japanese rivals, writes **Michiyo Nakamoto**

Waiting for the volume to increase

Mr Jacques D'Elfant, senior managing director of Philips consumer electronics, last month gathered the staff of his newly established European marketing, sales and service organisation in a sprawling warehouse in Acht, Holland.

Surrounded by stacks of audio equipment Mr D'Elfant delivered a stark message to his team on how the Dutch electronics group planned to regain the initiative in the European market from its Japanese competitors.

"We are not fighting against the Japanese but against Frenchmen, Germans and others who sell Japanese products," he said. "We know where we want to go so we can start on this right away."

A similar rallying call is being heard at other European consumer electronics manufacturers as they brace themselves for another joyless year in 1992.

Manufacturers expect the European consumer electronics market to be flat in 1992, following a meagre 1 per cent growth in sales last year from Ecu25.2bn ($32.25bn) to Ecu25.4bn in 15 western European countries, according to BIS Strategic Decisions, the high-technology consultancy.

Hopes that a recovery in leading European markets would lift demand for colour TVs and hi-fi sets, after a virtual standstill in 1991, have been replaced by a recognition that any pick-up in consumer activity this year will, at best, be slow.

In the past few years, Europe's indigenous manufacturers have been battered in their own markets by the onslaught of east Asian competitors.

Japanese manufacturers, in particular, have dominated important markets such as for VCRs, CD players and camcorders and have eaten into the European groups' market share of products, such as TVs, where the Europeans have traditionally dominated.

Yet in spite of the gloomy near-term outlook, the European consumer electronics industry is optimistic. The growing feeling is that the industry is at a turning point which could work to the advantage of European manufacturers.

While Japanese manufacturers are also suffering from the downturn in their own market, shifts in technology, such as from analogue to digital and the move to high-definition TV, could give European manufacturers a chance to regain the initiative over Japanese competitors, at least in their own markets.

"This kind of technology shift is always a major opportunity," says Mr Jorma Ollila, president of Nokia, the Finnish electronics group.

Wide-screen TV, and eventually high-definition TV, are seen to provide such an opportunity. By the year 2000, one market study suggests that half the retail value of colour TVs will be made up of wide-screen TVs.

The attraction of wide-screen TV to European manufacturers is that it is a value-added product at the higher end of the market, offering larger profit margins. Europe's top three manufacturers have launched wide-screen TV sets, while Japanese manufacturers have yet to do so in Europe.

Meanwhile, with digital music cassettes, Philips has stolen a lead over Sony (which has a competing format, MiniDisc) in its pre-launch publicity and in signing up record companies to produce music on its own format.

In spite of recent setbacks, Europe's consumer electronics manufacturers have been sustained by a pride in their ability to maintain a leading role at least in the European market.

"Unlike the United States, Europe has never thrown in the towel in this segment," Thomson Consumer Electronics, the French state-owned company, says in a report.

Philips and Thomson are still first and second in Europe in revenue terms and the third and fourth largest consumer electronics groups in the world. Nokia is the second-largest manufacturer of mobile phones after Motorola of the US. In colour television sales, Philips and Thomson still top the European rankings followed by Grundig, the German group in which Philips has a large stake, and Nokia. Sony, the Japanese group, is fourth, according to BIS.

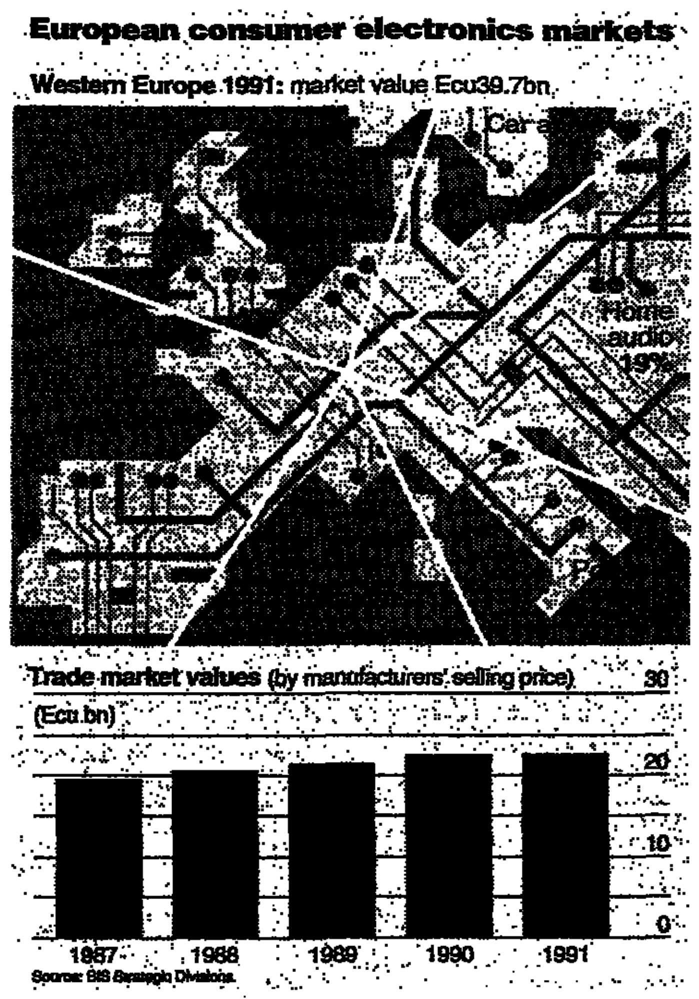
European manufacturers also show greater confidence that they have identified their weaknesses and introduced changes to strengthen their position.

As profits have suffered recently, European manufacturers have been putting their houses in order. Philips launched Project Centurion, its wide-ranging internal restructuring programme.

Thomson took a restructuring provision of FFr1.5bn ($270m) last year. Nokia, which depends on consumer electronics for 33 per cent of sales, took a FM391m ($16.82m) provision largely to cover the costs of an efficiency boosting programme in its consumer electronics business this year.

"We are now in good shape, we have a very good product range, and are well placed to compete with other manufacturers," says Philips.

European consumer electronics markets



Source: BIS Strategic Decisions

Although the industry practice of blaming difficulties on the Japanese has not entirely died out, there is a greater willingness to address its own weaknesses. For example, European manufacturers have been strengthening their distribution, marketing, sales and services in recognition that technology alone will not bring profits.

In the short-term, the benefits of the manufacturers' restructuring will be substantial, particularly for Philips, says Mr Andrew Haskins, industry analyst at James Capel.

Nokia, meanwhile, has forged ahead with its mobile phone activities and recently won large contracts to supply the US and Japanese markets.

But in the long-term, a question mark remains over whether the Europeans will be able to sustain any improvements in profitability that may come from restructuring and a pick-up in demand.

They have ploughed vast sums into new products and into shaping up for the recovery, which should bring at least short-term benefits, but the test for European manufacturers may merely have been postponed.

Continental demands return of dividend from Pirelli

By David Waller in Frankfurt

CONTINENTAL, the German tyre company, yesterday demanded that Pirelli, its Italian rival, should repay the dividend received last year on its shares in the Germany company.

The demand represents an intensification of hostilities between the two companies, and follows shortly after Pirelli's announcement that it would launch a second attempt to remove shareholder voting restrictions at the German company. This challenge will be mounted at a shareholders' meeting scheduled for July 3. The two companies spent nearly 18 months trying to negotiate a merger until talks broke down in December last year.

The German company's demand for DM8.91m ($5.5m), which Continental said was grounded in German company law, stems directly from a courtroom victory it won over Pirelli at the end of last month.

Continental said yesterday the ruling meant Pirelli was not entitled to collect a dividend on its shares, just as it was not entitled to voting rights on those shares.

Pirelli said last night it would not pay the dividend back as it was challenging the legal decision on which the claim for repayment was based.

Continental said if Pirelli did not pay the money back, it would take the Italian company to court in an attempt to obtain it.

Once the money had been obtained, it would be paid into a dividend reserve and be available for distribution to shareholders in the future.

The Hanover court ruled on May 29 that Pirelli's earlier attempt to overturn voting restrictions – limiting shareholders' votes in Conti to 5 per cent no matter how big their stake – was invalid.

The basis for this ruling was that, contrary to German company law, Pirelli had not declared that it spoke for more than 25 per cent of the German company. Pirelli owns 5 per cent and has options over a further 34 per cent.

The court ruled that Pirelli had direct control over a minimum of 25.4 per cent of Continental when it launched its first challenge in March last year.

NatWest to merge investment arm

By Richard Waters and David Barchard in London

COUNTY NatWest, the ill-fated investment banking arm of the UK banking group National Westminster, is to be broken up and its operations submerged within the NatWest group, it emerged yesterday.

The move spells the end of NatWest's dream at the time of the City of London's Big Bang six years ago to create a free-standing, full-service investment bank. However, NatWest said that County's operations would continue under the umbrella of NatWest Markets, provided they could generate adequate profits.

The bank will decide before the year-end whether to keep parts of the business in separate legal entities, or whether to bring it all on to the bank's own balance sheet.

Mr Derek Wanless, NatWest chief executive, said that the enlarged NatWest Markets division would bring together all of the group's services for large companies and institutional investment clients. The division will also oversee lending to the group's 800 largest corporate customers around the world.

By centralising all financial markets operations, NatWest hopes to make considerable savings on back office activities. Mr Wanless said no decision had yet been made on how many of the 1,500 back office staff would lose their jobs, but he hoped the new division would expand and eventually create new jobs.

NatWest Markets was set up in January this year. It is backed by £3bn ($5.5bn) of the group's capital and employs 5,000 people. NatWest plans to promote its branding strongly in the financial markets, while County will be reduced to a secondary branding on some of its products. A decision will be made over the next six months on whether to retain County as a brand name for parts of NatWest's operations.

County's equities division, which has been the cause of its poor performance, is to be run as a separate unit alongside NatWest's treasury division.

Besides saving on costs, this will enable the group to make better use of County's equity research unit, said Mr Martin Owen, who has been appointed head of the enlarged markets division.

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BET falls to £18.5m after heavy reorganisation costs

By Richard Gourlay in London

BET, the UK business services company, yesterday reported a sharp fall in pre-tax profits to £18.5m ($34.2m) from £217m after writing down its assets and substantial reorganisation provisions.

At an operating level, profits in the year to March fell by nearly half to £146.1m as the recession continued to bite, particularly in the UK personnel, joinery and plant-hire services businesses.

The pre-tax fall, after a higher-than-expected exceptional charge of £89.8m, led to a cut in the final dividend to 2.25p and in the total payment to 6.5p. Earnings per share fell from 18.5p to a loss of 0.9p after payment of preference dividend.

Mr John Clark, chief executive, said he had spent much of his first year in the post trying to refocus BET from a financial holding company to an operating company after years in which acquisitions drained the company of cash.

BET also became one of the first FT-SE 100 companies to make extensive use of new guidelines on goodwill suggested by the Accounting Standards Board.

Following the ASB's Urgent Issues Task Force guidelines, BET made a £477m extraordinary charge relating to goodwill on businesses which have been sold or are about to be sold. Some £405.6m of the total was related to goodwill written off in respect of under-performing businesses which are to be sold and which were already written off the balance sheet at the time of acquisition.

The charges highlight the true scale of losses on some of the 170 businesses bought by the previous management and which the new BET team considers a bad fit.

The £90m exceptional charge related to a net £21m of reorganisation costs, following a fundamental rethink of BET's strategic direction, and a £69m write-down of assets and deferred costs.

BET was strongly cash generative during the year, reducing debt from £425m to £107m and gearing to 25 per cent excluding $500m of auction-market preferred shares (AMPS).

This cash generation was flattered by the tight control taken on capital expenditure which at £109m – including the proceeds of disposals – was substantially less than depreciation of £179m.

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Inquiry hits at former Nordbanken management

By Robert Taylor in Stockholm

THE FORMER senior management of Nordbanken, the ailing Swedish state-controlled bank, is criticised strongly in an inquiry into its financial troubles, published yesterday.

The report suggests that the administration of the bank at the time of its merger with the private PK Banken three years ago was "almost catastrophically bad".

It accuses Nordbanken of an "extraordinary and unacceptable" lack of management during 1988 and 1989 particularly in its Stockholm headquarters over provision of credit.

The report points to a high turnover of staff dealing with credit policy with a large number young and inexperienced.

In spite of internal warnings calling for better credit procedures, the bank's senior executives had never followed up the recommendations made to them, suggested Mr Bertil Sodermark, a distinguished Swedish solicitor, who wrote the report.

Only parts of the reports have been authorised for publication by the Ministry of Finance.

SMI caught in a vicious circle

An acquisition-led expansion at the Italian metals concern has brought surging turnover but not profits growth, writes **Haig Simonian**

SOCIETA Mettalurgica Italiana's (SMI) purchase of Kabelmetal, its bigger German rival, enabled it to double sales and become Europe's biggest maker of copper and alloy products.

Turnover at the Florence-based group surged to L3,013bn ($2.5bn) last year thanks to the purchase of the German copper concern, formerly owned by the MAN group. However, its profits have remained static. The Kabelmetal deal was the latest and biggest step in SMI's L600bn expansion over the past five years, when it transformed itself from a collection of small Italian copper companies into a multinational with acquisitions in France, Spain and, most recently, Germany.

Earnings, however, have not kept pace with growth. Net group profits after minority interests amounted to just L12.2bn in 1991, less than the L12.7bn made on turnover half as big as in 1990.

The reason for the disappointing earnings lies in the depressed state of the construction industry in most European countries and the fact that SMI's capital has not kept pace with its acquisition-led expansion.

SMI – led by Mr Luigi Orlando, a three-time deputy chairman of the Confindustria employers' federation – belongs to the exclusive club of companies which form the salotto buono – the good drawing room – of Italian private-sector industry.

Its ownership reflects its pedigree. SMI, the main holding concern, holds 45 per cent of Europa Metalli, the chief operating arm, which, in turn, controls the group's foreign subsidiaries. SMI itself is 47 per cent owned by GIM, a financial holding company controlled by the Orlando family, which features a bevy of top Italian private sector names such as Pirelli and Mediobanca among its shareholders.

Having a small base of stable shareholders has facilitated control by the Orlandos and confirmed SMI's place within the network of big Italian family-controlled companies, which are often linked by complex cross-shareholdings. However, the lack of a wide shareholder base is also one of the reasons why SMI's capitalisation has failed to rise at the same rate as its growth.

The company is caught in a vicious circle. Foreign expansion has been essential to reap economies of scale and compete with bigger public and private-sector rivals abroad. Yet SMI's owners have been reluctant to pump in more capital to match its growth until earnings improve. But it is the lack of funds, and consequent heavy borrowing costs, which are among the factors now depressing profits.

While the group's debt declined by around L50bn to L900bn last year, the total is still on a par with total shareholders' funds. Meanwhile, consolidated interest charges amounted to around L100bn last year, representing over 3 per cent of sales. "That is still too high," admits Mr Orlando.

The problem is not entirely of SMI's making. The price for Kabelmetal rose unexpectedly after the German cartel office blocked MAN's original plans to reinvest the proceeds. The delay meant MAN missed the deadline for special tax breaks linked to its reinvestment plans, prompting it to demand a higher price and tougher payment terms for Kabelmetal. Instead of paying L276bn over several years, SMI had to deliver the full L410bn in cash.

Consolidation of its acquisitions is SMI's top priority, says Mr Sergio Ceccuzzi, managing director. SMI has already divided product responsibilities between different parts of the group. Kabelmetal, by far the biggest single unit, has been given sole charge of material purchasing. Research has been split between the French, German and Italian operations, with a single manager in charge, while SMI itself has closed some factories in Italy.

Small improvements have already been evident on the bottom line. Gross operating earnings, although partly swollen by the inclusion of Kabelmetal, climbed to L235bn from L106bn in 1990. Productivity improvements are also responsible for the operating improvement. However, Mr Orlando stresses SMI will have to do much better before turning to shareholders for more capital.

Much will depend on the market. SMI's French and Spanish arms failed to make money last year, while its UK operations were also badly affected by the crisis in the building trade. Meanwhile, prices for copper products remain depressed by overcapacity and price competition.

The company hopes its bigger size will give it greater leverage over suppliers and customers, and leave it better placed to sit out price wars in the industry.

Hence its decision not to cut its L35 dividend for ordinary shares and L70 for savings stock this year. Explaining the decision to leave the dividend intact, Mr Orlando stresses SMI's efficiency improvements should lead to higher earnings this year, even without an upturn in the market.

Eventually, the group will need more capital. With its domestic shareholder base limited, SMI is already trying to become better known abroad. In February, it launched an Ecu100m commercial paper programme, organised by a trio of French, Swiss and Italian banks, as its latest step to become more familiar on foreign markets.

However, Mr Ceccuzzi has no false hopes about the role of foreign investors. "The image of our industry is not always at its best. It's almost come to be seen as one an industry without a future," he admits.

"It's up to us to show we can set ourselves targets and then show results," adds Mr Orlando. "Only then can we ask shareholders for more cash."

Holzmann sees further improvement

PHILIPP Holzmann, the German construction group, said it expected a further improvement in operating results in 1992, Reuter reports from Frankfurt.

The company said that group construction output, which climbed by 32.2 per cent in the first quarter to DM2.46bn ($1.52bn), would rise to more than DM12bn for the full year after reaching DM10.96bn in 1991.

Holzmann said most of its loss-making subsidiaries should return to profits, but it declined to provide details.

Holzmann had a net profit in 1991 of DM50.6m, up from DM16.7m in the previous year. The company's parent company order inflow rose 13.4 per cent to DM3.75bn in 1991, while group order inflow rose 2 per cent to DM11.04bn.

Orders in hand at the end of 1991 totalled DM10.07bn, an improvement of 5 per cent on end-1990 levels.

Group construction output in 1991 totalled DM10.96bn, an increase of 18.5 per cent.

Outokumpu edges into black on 8% sales gain

By Robert Taylor

OUTOKUMPU, the Finnish mining and metals group, made a profit of FM3m ($700,000) for the first four months of the year compared with a FM77m loss in the same period of 1991.

Net sales improved by 8 per cent to FM4.42bn against FM4.1bn in the year-earlier period.

The company said the improvement reflected the devaluation of the markka last autumn and a "faint upturn in demand", but it added that the results "remained unsatisfactory".

Dr Jyrki Juusela, chief executive and chairman, said that he believed "world economic growth and investment activities" should "strengthen slightly", although there were many uncertainties about forecasting performance for the rest of 1992.

Dr Juusela said the expected upturn would be "quite slow". For the year, Outokumpu aimed to show "a strong improvement" on the FM543m loss it made for the whole of 1991, he added.

Hennes and Mauritz surges

HENNES and Mauritz, the largest Swedish clothing retailer, achieved 67 per cent growth in profits for the first six months of the year, writes Robert Taylor. Profits rose to SKr358.6m ($63m) from SKr214.7m in the 1991 period.

Turnover rose by 18 per cent to SKr4.340bn from SKr3.678bn, with sales outside Sweden responsible for 53 per cent of that improvement.

The retailer's success partly stems from expansion outside Sweden, particularly in Switzerland, Britain and Germany. This summer, it plans to open three stores in Belgium, with a total of 15 new outlets in Europe by the end of the year.

The company's shares have risen faster there than any other listed company. Last year it enjoyed 87 per cent growth in profits to SKr619m.

East Midlands Electricity ahead by 41%

EAST Midlands Electricity, the first UK regional electricity company to announce results for the year to the end of March, yesterday reported a 41 per cent increase in pre-tax profits to £150m ($273m), writes Juliet Sychrava in London.

The increase was close to the 40 per cent average expected for the regional companies.

East Midlands' earnings per share also rose by 41 per cent to 50.1p, and the dividend was 13.7 per cent higher at 17.1p.

Turnover rose 16 per cent to £1.54bn, and operating profit was up 38 per cent at £157.5m. Nearly £150m of this was earned in the core distribution business.

INTERNATIONAL COMPANY NEWS IN BRIEF

Dasa rules out Fokker deal that excludes partners

DEUTSCHE Aerospace, the aerospace division of Daimler-Benz, yesterday confirmed it would not sign any agreements with Fokker, the Dutch aircraft company, that excluded its French and Italian partners, Reuter reports from Berlin.

Mr Juergen Schrempp, the DASA management board chairman, said talks with the Dutch group, had been approved by France's Aerospatiale and Italy's Alenia. He said Aerospace and Alenia would join the group once agreement had been reached on DASA's acquisition of a majority stake in Fokker.

GBL to repay debt

GROUPE Bruxelles Lambert, flush with cash from recent divestments, will use some of its liquidity to repay debt, Mr Michel Delloye, the general director said, Reuter reports from Brussels.

GBL is Belgium's second-largest holding company.

It has about BFr25bn ($771m) in cash and BFr17bn of long-term debt. BFr11bn of this debt will become due next year.

Drugs group forecast

ROUSSEL Uclaf, the French drugs group, said it expects 1992 net attributable profit to be about FFr660m ($124.2m), up from FFr598m in 1991, Reuter reports. Turnover should reach FFr15.55bn, from FFr14.35bn. The profit rise between the two years should be 30 per cent the company said.

Foster's rejects merger with SA Brewing

FOSTER'S Brewing Group (FBG), the Australian brewer, yesterday rejected a merger proposal from SA Brewing (SABH), the beverages and manufacturing group, Reuter reports from Sydney.

Mr Nobby Clark, Foster's chairman, said: "On balance, we do not believe that the SABH merger proposal would be advantageous for Foster's Brewing Group shareholders."

Mr Clark said Foster's strategy was to become a single-purpose brewing company and it did not believe the SA Brewing proposal offered benefits to justify a reversal of this strategy.

"FBG believes that the non-beer businesses [of SABH] are incompatible with the current FBG businesses and that the SABH proposal offers minimal synergies, while exposing FBG to substantial downsides with continued instability, costs and implementation issues," he said.

SA Brewing announced in May a plan to merge with Foster's via a cashless share swap, creating a company with assets of about A$10.6bn (US$8bn)

Following that announcement, S&P-Australian Ratings placed the credit rating of Foster's on creditwatch. S&P currently rates Foster's unsecured debt at BB and its commercial paper at B1.

Turning to Foster's overall financial position, Mr Clark said: "While FBG is sound with a strong cash-flow, we recognise the benefits that would flow from a better credit rating. Options to address this matter are being carefully examined."

● Carlton and United Breweries (CUB), a unit of Foster's Brewing Group unit, and Power Brewing plan to form a joint venture company to buy Power's brewery and beer brands for about A$90m, Reuter reports from Brisbane.

Power and CUB said that the 50-50 joint venture, Queensland Breweries, would have equal representation by Power and CUB on its board.

Power and CUB said that under the joint venture proposal Queensland Breweries would brew beer for Power and CUB but each company would maintain control of marketing and distributing its own brands through supply agreements.

They said CUB would eventually relocate its Queensland production from an inner-city site in the Queensland state capital of Brisbane to Yatala, about 40 km south of Brisbane.

Power's brewery is at Yatala. "This will ensure that the Yatala facility will be fully utilised," the companies said.

The arrangement is subject to the approval of Power shareholders and the Australian Foreign Investment Review Board.

The companies said production would continue at both sites until the relocation and the effects of rationalisation would be subject to discussions with all relevant parties.

Mr Mike Pelly, CUB's regional director of northern states, said: "The Yatala site has considerable potential for expansion to meet increasing demands for our products in an area where the nation's biggest population growth over the next decade or more is projected."

Mr Bernard Power, Power Brewing chairman, said the deal ensured the continuing strength of Power's brands.

Foster's shares ended unchanged yesterday at A$2.06. Power shares, which last traded at 85 cents, were suspended ahead of the news.

Nobby Clark: non-beer businesses incompatible

NZ white goods group shows sharp growth

By Terry Hall in Wellington

FISHER and Paykel, the New Zealand white goods manufacturer, has reported an 88.4 per cent rise in net profits to NZ$8m (US$4.3m) from NZ$4.2m a year earlier, helped by strong growth in exports.

The company reported a 50 per cent advance in sales in Australia following the opening of a factory in Queensland. This gives it 10 per cent of the Australian market.

Continuing slack demand in New Zealand saw an 8 per cent drop in sales there to NZ$331.1m.

Total export earnings, to Australia and the US, rose 40 per cent to NZ$144.8m. Operating revenue was virtually unchanged at NZ$504.83m.

Directors said demand would remain low for the rest of the year. Tax was NZ$3.76m (NZ$2.2m). Bottom-line profit was NZ$6.9m against NZ$4.4m) last year.

Shareholders' funds were NZ$225.9m compared with NZ$224.9m a year earlier. A total dividend of 8 cents a share is being recommended, up from 10 cents.

Cycle and Carriage wins control of Malayan Credit

CYCLE and Carriage (CCL), the Singapore car distributor, and its partner Hotel Properties (HPL), have acquired 85 per cent of Malayan Credit (MCL), a local family-run property company, Reuter reports from Singapore.

CCL said that on the expiry of the takeover offer last Friday the two acquiring companies had acquired 274.31m MCL shares, representing 85.31 per cent of its issued capital.

The 85.31 per cent stake includes 24.17 per cent held by HPL prior to the takeover.It also includes a 24.42 per cent shareholding which had belonged to Mr Teo Soo Chew, MCL chairman, and his family members. They sold their stake last week to Cycle.

Singapore's Teo family, which founded MCL, has had nearly total control of the company.

CCL announced the takeover bid on April 10, offering S$2.25 for every MCL share.

At midday yesterday, CCL stood 5 cents lower at S$6.60 and MCL had risen 5 cents to S$2.38.

CCL, diversifying into property and food businesses to overcome a softer car market, has said it would place all MCL stock in excess of 85 per cent of the issued share capital at S$2.10 per share under placing agreements with two broking houses.

Analysts said that limiting the combined CCL/HPL stake to 85 per cent would ensure MCL's listing on the local bourse.

Disney plans to open three stores in Japan

THE Disney Store (Japan), Walt Disney's wholly-owned retailing subsidiary, will open its first store in Japan in August, Reuter reports from Tokyo.

The first store will open in Yokohama, near Tokyo. It will be followed in November by a second outlet in Tokyo and in March 1993 by a third store in Osaka, Disney Store (Japan) said.

The stores would specialise in Disney character items such as dolls, stationery and watches, it said. Sales estimates were not available.

The Disney group has already opened 138 such stores in the US and five in Britain since the opening of the first outlet in California in 1987.

Telecom NZ warns price war would hit earnings

TELECOM Corporation of New Zealand (Telecom NZ) yesterday said a continuing price war with its rival, Clear Communications, could hit future earnings, Reuter reports from Wellington.

"If competition for toll market share continues principally on the basis of price, this may have an adverse effect upon future net earnings, in which case the provision in the Kiwi Share enables the company to increase residential prices at a faster rate," it said.

The Kiwi Share commits Telecom NZ to maintaining free local calling and limits how much it can hike prices.

Telecom said the extent and timing of any increases to domestic calling rates and the effect on earnings remained uncertain.

Analysts believe that newcomer Clear grabbed 10 per cent of the long-distance phone market in 1991-92, mainly on the basis of price. They estimate Telecom NZ has lowered prices by 10 to 15 per cent since March 31 to match Clear's prices.

Telecom NZ said long-distance revenue fell 2 per cent in the last quarter of the 1991-92 year as a result of lost market share and reduced prices.

Telecom NZ expects long-distance and international calling revenue to decline in 1993. It said it sees Clear shifting its competition from price to quality in the second phase of its attack on Telecom.

Oriental Holdings sees lower profits

ORIENTAL Holdings, which assembles and sells Honda Motor cars in Malaysia, said it expected turnover and profit for 1992 to be lower than last year's, due to lower car sales, Reuter reports from Kuala Lumpur.

Oriental recorded a pre-tax profit of M$254.1m (US$101.2m) for 1991 on turnover of M$1.25bn.

INTERNATIONAL COMPANIES AND FINANCE

HJ Heinz falls 6.6% after charges

By Karen Zagor in New York

H. J. HEINZ, the Pittsburgh food group, yesterday turned in a 6.6 per cent decline in fourth-quarter net income to $145.7m from $156.1m in spite of a slight rise in sales.

The fall reflects higher marketing costs and pre-tax restructuring charges of more than $50m.

Earnings per share in the three months ended April 29 slipped 3.4 per cent to 56 cents from 58 cents on sales which improved 1.6 per cent to $1.87bn from $1.83bn.

The company said the strength of the US dollar against foreign currencies depressed sales in the quarter by 2.1 per cent. This was offset by a 2.3 per cent improvement in volume in a number of brands including StarKist tuna, baby food and ketchup.

Fourth-quarter operating income fell 16 per cent to $230.5m from $275.5m. Selling, general and administrative expenses rose 5 per cent to $466.3m from $443.6m.

For the full year, a pre-tax $221.5m gain on the sale of Heinz's Hubinger subsidiary helped the company post a 12.4 per cent rise in net income to $638.3m, or $2.40 a share, from $568m, or $2.13, a year earlier.

Sales for the year slipped to $6.58bn from $4.65bn. Heinz attributed the decline to the divestitures of Hubinger and Caribbean Restaurants, another subsidiary. Volume was essentially flat in the year.

Mr Tony O'Reilly, chairman, said he was pleased that the results were on target with earlier predictions in spite of turbulent market conditions.

"The replacement of The Hubinger Company by JLFoods took the company out of a commodity business into a value-added food business with excellent growth prospects," he added. "The acquisition has performed ahead of expectations."

Heinz also announced the appointment of two new senior vice-presidents yesterday. Mr David Williams, 49, will be based at Heinz's world headquarters in Pittsburgh. Mr Williams is also the company's chief financial officer.

Mr Luigi Ribolla, 55, will head Heinz's European operations from Milan. He replaces Mr Paul Corddry, 56, who is retiring after 28 years with the company.

Tony O'Reilly: pleased that results were on target

Banorte sale brings in 1,776bn pesos

By Damian Fraser in Mexico City

THE MEXICAN government has sold 66 per cent of Banco Mercantil del Norte (Banorte) for 1,776bn pesos ($567m), bringing the total proceeds from the 16 banks privatised so far to 35,100bn pesos.

Banorte was sold to investors headed by shareholders in Grupo Maseca, a company best known in Mexico for tortilla flour. The group bid 951 pesos per share, valuing the bank at 4.25 times book value, and 12.62 historic earnings.

This is roughly in line with bids for the three previous banks privatised, which were sold at a multiple of earnings of 17.85, 16.45 and 11.13 respectively.

The next highest bid for Banorte was 1.1 per cent less than Grupo Maseca's, an indication of the competition between bidders to acquire a bank before it is too late.

Just two more banks remain on the block, with the last, Banco del Centro, due to be sold on July 3.

Banorte is the largest of Mexico's five regional banks, with 125 branches in northern Mexico. It has 16 per cent of loans in the states of Nuevo Leon, Tamaulipas and Coahuila.

The new owners intend to increase service along the US-Mexican border and, in due course, buy or set up a brokerage and create an integrated financial group.

ICL, Hughes in data security plan

By Alan Cane

ICL, the UK-based computer manufacturer in which Fujitsu of Japan has a majority stake, and Hughes STX, a wholly-owned subsidiary of Hughes Aircraft, are joining forces to offer large customers security products to protect their computer networks against intruders, such as hackers.

The companies said yesterday that they had concluded a agreement to jointly market security systems based on technologies they have developed for the defence market.

The market for data security products is reckoned to be worth about $5bn at present and growing at over 20 per cent a year.

The industrial logic of the joint venture is that both companies have long experience of developing systems to protect military computer networks against hackers, spies and other unauthorised intruders.

Mr Andrew Roberts, director of ICL's mid-range systems division, said: "We have technology and products which were originally developed for the British government defence market.

"The agreement with Hughes enables us to make them available to the American defence community. Hughes will assist us in tailoring them for the commercial market in North America."

ICL, with a turnover last year of $3.3bn, is looking for new ways to penetrate North American markets. In co-operation with its Japanese parent it is already a leading supplier of point of sale systems.

Hughes, with revenues of about $8bn, specialises in information security and systems integration for government and commercial customers.

Its range of products includes masking devices which can make computers invisible to electro-magnetic eavesdropping.

The threat to commercial networks has grown as companies have developed networks with a few hundred to many thousands of terminals powered by computers from several different manufacturers.

The two companies are hoping to generate revenues of $100m in annual sales within four years.

Gulf Canada Resources shares tumble

By Bernard Simon in Toronto

SHARES of Gulf Canada Resources, the energy group controlled by ailing property developer Olympia & York, lost almost one-third of their value yesterday after the company reported poor results from an Indonesian natural gas well.

Gulf's share price tumbled by C$3 in heavy trading yesterday to C$6.88 at midday. It reached a peak of C$10.88 earlier this year.

The company's shares drew a flurry of excitement earlier this year when initial tests on the Kuala Langsa well in North Sumatra raised hopes of a vast gas deposit.

The well is close to the huge Arun gas field, which is a leading supplier of liquefied natural gas to Japan. Japanese National Petroleum has a 50 per cent stake in the Gulf Canada property.

Gulf said yesterday that test results now pointed to an unexpectedly high proportion of carbon dioxide and a low level of hydrocarbons.

A Gulf Canada spokesman said further tests would be conducted before a decision was taken whether to develop the Kuala Langsa field.

O&Y's problems have thrown a cloud over Gulf's future ownership. The developer, whose Canadian assets are under court protection, pledged its Gulf shares as partial security for a US$2.5bn "jumbo" loan which it negotiated with an international banking syndicate in 1989.

In a move to conserve resources, Gulf withdrew earlier this year as a participant in the C$5bn (US$4.1bn) Hibernia oil project off Newfoundland. Other participants in the Hibernia venture, led by Mobil Oil Canada, are searching for a replacement.

Local reports have suggested that Hyundai, the South Korean conglomerate, may be among those interested in taking Gulf's place in the Hibernia consortium.

Barr accuses FDA of making untrue claims

By Paul Abrahams

BARR Laboratories, the New York-based generic pharmaceuticals company, yesterday attacked the US Food and Drug Administration for seeking an interim injunction to stop it marketing medicines.

The company said allegations filed by the FDA at a New York court last Friday were untrue or misrepresentative. FDA inspectors visiting Barr's manufacturing sites last year said the company's manufacturing practices were not up to standard. A court hearing at White Plains, New York, has been set for June 24.

Barr's attack on the FDA follows a long-running feud with the organisation. The company says it has more than 80 drug applications outstanding and not one has given approval since 1989.

In April, Barr won a battle with Imperial Chemical Industries of the UK over the US patent for Nolvadex, ICI's best-selling cancer drug. Barr said then it planned to distribute Nolvadex within 12 months.

Barr is also challenging the validity of Wellcome's patent for Retrovir, the drug used to treat patients with the Aids virus, HIV.

Barr stopped marketing certain medicines in an attempt to placate the FDA in April. The company has since announced it planned to reduce its workforce of 530 by about 25 per cent.

Maple Leaf Foods plans to go ahead with merger

By Robert Gibbens in Montreal

MAPLE Leaf Foods, owned 56 per cent by Britain's Hillsdown Holdings, plans to go ahead with a merger with Corporate Foods, Canada's biggest baking group.

Maple Leaf already owns 66 per cent of Corporate Foods. Last April, the two companies proposed a merger on the basis of 1.15 shares of Maple Leaf for each share of Corporate Foods.

Now an independent committee of Corporate Food directors has recommended the merger take place on the same basis, but with a cash option.

Corporate Food shareholders can now take C$19.90 a share cash for their stock.

Hillsdown will take steps to retain its 56 per cent ownership in Maple Leaf Foods, which is has operations in the US and Europe.

● BioChem Pharma, one of Canada's leading biotech companies, and Sweden's Astra pharmaceuticals group plan a joint development of the Montreal company's pain control compounds, based on BCH-150, now at the pre-clinical trial stage.

The agreement includes an upfront payment, research, funding and other payments from Astra to BioChem and provides for the potential future development and commercialisation of compounds.

Chairman of Time Warner takes leave

By Martin Dickson in New York

MR Steve Ross, chairman and co-chief executive of media group Time Warner, announced he was taking a temporary leave of absence from the group to resume treatment for prostate cancer, from which he has been suffering for a considerable time.

Mr Ross said in a letter to Mr Gerald Levin, his co-chief executive, that he had been advised he had not fully recuperated and must now resume treatment.

Time Warner declined to comment further on Mr Ross's cancer, or on how long the leave of absence might last.

Mr Ross, who began his business career as a director of funeral homes, built the Warner group into a leading film and entertainment business before combining it with Time, the book and magazine publisher, in a highly controversial 1989 merger.

Earlier this year, Mr Nick Nicholas, previously Mr Ross's co-chief executive, quit the group after a series of disputes over strategy, leaving Mr Levin as the chairman's evident heir apparent.

Mr Ross said in yesterday's letter that he was "completely comfortable" with Mr Levin taking over during his absence. He expressed confidence in Mr Levin's leadership skills and said the two shared the same vision for Time Warner. He added that he looked forward to returning to work as soon as possible.

His absence comes as Time Warner continues a lengthy search for a European partner to invest in part of its business.

Ross Cosmetics denies any improprieties

ROSS Cosmetics Distribution Centres has said it was confident its accounting practices were sound and that all commercial dealings with its main supplier, S&J Perfume of the UK, have been proper, agencies report.

The South Carolina-based company's statement follows its disclosure on June 12 that up to 60 per cent of its stock may be held directly or indirectly by parties related to S&J Perfume.

The company said the relationship had not previously been disclosed to the public or the US Securities and Exchange Commission.

It revealed that the SEC had begun an informal investigation of the company and added that it was co-operating fully with the SEC, but did not have any knowledge that any improprieties had occurred.

Ross said it had received many inquiries from the investment community on the possible direct or indirect equity stake held by the S&J.

It maintained that it did not yet know the exact nature of any such relationship between the company and its principal supplier, or if any members of the company's board or senior management may have had previous knowledge of this undisclosed relationship.

McDonnell Douglas set to delay launch of jumbo jet

By Martin Dickson in New York

McDONNELL Douglas, the financially-stretched US aerospace group, appears to have virtually abandoned hope of launching its much-trumpeted MD-12 jumbo jet in 1992 because of a lack of orders.

The blow comes on top of McDonnell Douglas's continuing difficulties in attracting Asian investment to the project, which is widely regarded as crucial to the company's future in commercial aviation.

The company is also engaged in a substantial round of job cuts at its commercial aircraft division in southern California as it grapples with a deteriorating market for commercial jets.

McDonnell Douglas had hoped to launch the MD-12 programme before the end of 1992. However, a company spokesman acknowledged yesterday the financial difficulties facing the world's airlines meant that "it may not happen this year".

He insisted that many airlines had responded "very positively" to the new aircraft but acknowledged that none had placed orders for it. "We're going to wait for the market," he said. "We're ready to launch it when they are ready."

The MD-12 would challenge Boeing's 747-400 at the top end of the market. In a bold move last April to take the commercial initiative, McDonnell Douglas scrapped earlier plans for a three-engine aircraft in favour of a four-engined one with two passenger levels. This aircraft could eventually be stretched into a super-jumbo, carrying more than 600 passengers, which would make it the largest on the market.

Analysts say that if the company fails to get the MD-12 into production it will be doomed to inexorable decline in the commercial aircraft business, because it offers a much narrower range of products than Boeing or Airbus Industrie of Europe.

It cannot afford the development costs of the MD-12, which are estimated at more than $5bn, and to fund the jet it has been discussing selling up to 49 per cent of its commercial aviation business to Asian and European investors, notably Taiwan Aerospace, which last year reached a tentative agreement to buy a 40 per cent stake.

However, the Taiwan company, under pressure from hostile legislators, has grown more wary of a deal and is concerned about the uncertain commercial potential of the new aircraft.

McDonnell Douglas yesterday faced problems on another front when a Pentagon report, leaked to the press, alleged that senior government officials had rushed through the approval of new versions of the company's F/A-18 fighter without a proper evaluation.

The report is ammunition for Congressional critics of the F/A-18 seeking to slow or halt the programme.

McDonnell Douglas shares reacted to the flurry of bad news by dropping $1¼ in late trading on the New York Stock Exchange, to stand at $38¼ at close of trade.

Details of sale of Total stake revealed

THE French government plans to sell 22.9m Total shares, representing a 12.4 per cent stake in the oil company, by July 10, if market conditions permit, Reuter reports from Paris.

According to the Finance Ministry, the sale will be split into three tranches, a French tranche of about 8m shares, a public placement in the US of about 7.4m shares, and an international placement of about 7.5m shares.

It will also exchange four Total investment certificates for three ordinary shares, as announced on May 15, the ministry added. The offer represents 6.5 per cent of Total's capital, it said.

General plans for both operations were announced in May. As announced, the operation will cut the government's stake in Total to 15 from 34 per cent. The government will then have only two representatives on Total's board instead of four.

The state will still have some exceptional rights over Total relating to protection of national interests and will be able to veto the nomination of the company's chairman, but it will no longer be able to veto the choice of board members and directors.

Subscriptions to the public offer in France will be open for three days according to a schedule which will be given at a later date, the ministry said.

The other two tranches will run according to the same schedule, it added.

Total shares shed FFr5.30 to close at FFr250.70 yesterday.

In a separate statement, Total said the exchange of shares for certificates would involve 12.1m Total shares.

The US offer of 7.4m shares is equivalent to about 14.8m American Depositary Shares, it added.

The state will also sell shares representing 7.7 per cent of Total to state-owned financial institutions, it said.

Insurers Assurances Generales de France and Groupement des Assurances Nationales already own 2.3 per cent of Total.

Glass group reflects on the future

Ariane Genillard on plans to privatise a Czechoslovak enterprise

ALONG with thousands of other business managers who have presented privatisation projects to the Czechoslovakia government in recent months, Mr Karl Ludvik, the general manager of Preciosa, has put together a plan for the future ownership of the state-owned company he has headed for eight years.

But while other managers grew weary jet-setting around the world to find a foreign investor, Mr Ludvik has stayed in his office in Jablonec, a run-down industrial town near the Polish border. He did not need to move. Since it was created in 1948 when various workshops were grouped together, Preciosa has accumulated large profits from the assortment of glass (jewellery, chandeliers) it sells to 70 countries worldwide.

Mr Ludvik says he intends to keep the company in Czechoslovak hands. His words echo those of the government who, eager to reassure a public worrying that the best of Czechoslovakia is being sold to foreigners, decided that traditional Bohemian enterprises, such as the breweries, crystals and porcelain makers, would be privatised locally.

Mr Ludvik says his factory is anchored in the Bohemian glass-cutting tradition. In common with many Czechoslovak managers, he believes he does not need a foreign partner. "We have enough financial resources for our own development. It doesn't mean that we want to lock ourselves in our own house and be closed to foreign opportunities. We are interested in obtaining financing from abroad. But we don't want our capital to be even partially in foreign hands."

Mr Ludvik is not alone in rejecting foreign investment in Czechoslovakia. Foreign investors attempting to form joint-ventures with profitable local enterprises say they often face closed doors. "Many managers just think they can do it all on their own," says Mr William Harter, from Proctor & Gamble who last year bought a local detergent company. "Foreign investors are often not taking enough time to explain to their partners why they may be needed."

But there are other reasons why some managers are less than willing to forge joint-ventures with foreign partners. In the two years since the overhaul of the communist regime, many managers have taken advantage of the existing legislative vacuum. Often, for example, they have been plundering the state-owned companies they manage by transferring orders and profits to personal private companies.

Today, as privatisation projects are hastily approved by government officials, they hope to continue benefitting personally from the change.

Such attempts have stirred a bitter controversy both in the public and within governmental circles in Czechoslovakia. Officially, government members have declared their intention to prevent managers from receiving large portions of their enterprises' shares. But there have been a number of notable instances of managers influencing officials.

Eager to get a share of the pie, banks are vying to be included in Preciosa's privatisation project

Mr Ludvik is confident his privatisation project will be approved, despite the fact it would give 30 per cent of Preciosa to employees, of which the bulk would be owned by a few "keepers of the know-how", as he calls them.

"Our aim is not to loose these people whose skills have been passed on from generations to generations" he says. Instead, the enterprises will be owned by some employees, municipalities and local banks. Eager to get a share of the pie, banks have been vying to be included in Preciosa's privatisation project, offering as a bait loans which are twice cheaper than the market rate.

In common with many other managers in the country, Mr Ludvik intends to avoid the distribution of part of Preciosa's capital to the public under the government mass-privatisation programme. According to the eastern Europe scheme, over 3,000 enterprises will be distributed to the public in the form of vouchers which are expected to be converted into shares by the end of the year. "We are afraid of vouchers and we have good reasons to be" Mr Ludvik says. "Some investment funds will be buying the future shares and sell them to foreign companies. We don't want our capital to be even partially in foreign hands."

But government officials are not all lured by the patriotic intentions of managers. "In most cases, when managers say their companies will stay in Czechoslovak hands, they intend to launch management buy-outs," says Ms Eva Klvacova who works at the Czechoslovak privatisation ministry.

Electrolux seeking further acquisitions in eastern Europe

By Andrew Baxter

ELECTROLUX, the largest European white goods maker, is finding it difficult to make acquisitions in eastern Europe because of the poor condition of potential target companies, according to Mr Lennart Ribohn, senior executive vice-president.

The Swedish-based multinational is looking for further acquisitions in eastern Europe following its takeover last year of Lehel, Hungary's largest white goods producer. Although Electrolux has started talks with other companies, Mr Ribohn said it had not yet found one suitable.

The big western white goods companies are keen to expand in eastern Europe because of the latent market potential in countries such as Hungary and Czechoslovakia, but also as a possible source for low-end products or components. In May, Whirlpool, the world's largest white goods group, finalised an important joint venture agreement with Tatramat, the Czechoslovakian washing machine manufacturer.

Mr Ribohn said Electrolux had established holding companies in Poland, Russia and the Baltic states as channels for imported western white goods. However, economic conditions in some eastern countries since the collapse of communism restricted their ability to receive imports.

He said that since the takeover of Lehel, with which Electrolux has had a long-standing relationship, exports from the Hungarian company had increased.

He suggested that Electrolux could consider a green field expansion in eastern Europe if it could not find suitable acquisition targets and when market conditions improved.

The Electrolux executive was speaking at Zanussi's new L250bn ($209.4m) washing machine factory at Porcia, near Venice. The factory is a key weapon in Electrolux and its Zanussi subsidiary's battle with Whirlpool for supremacy in the European white goods market.

Mr Gian Mario Rossignolo, Zanussi chairman, said Zanussi lifted sales last year by 10.3 per cent to L2,424bn and claimed increased market share in Europe and in Italy. Zanussi's cash-flow grew 22.3 per cent to L187bn and investments rose 15.3 per cent to L122bn.

Both Whirlpool and Electrolux have been spending heavily on marketing and advertising in Europe over the past year, despite flat market conditions overall.

CBOT given permission to lift some position limits

By Barbara Durr in Chicago

THE Chicago Board of Trade says the Commodity Futures Trading Commission, the futures industry regulator, will permit it to lift speculative position limits on three of the exchange's most important financial contracts.

The rule change aims to accommodate large traders, particularly managed futures funds.

Position limits are caps on the trading positions held by non-commercial participants in a market.

They have traditionally been used to prevent price manipulations or excess volatility.

The CBOT's limits on trading the 30-year US Treasury bond, and five and 10-year Treasury notes will be removed. Position limits on the related option contracts will remain in effect.

The CFTC's move follows its approval at the start of the year of eliminating positions limits on the Chicago Mercantile Exchange's largest currency futures and its Eurodollar contract.

The CBOT is also proposing to the CFTC that its member firms be allowed to provide average prices and order quantities for large customers, when an order or series of orders representing multiple accounts is executed.

Again, the rule change is designed to respond to managed fund traders.

Tokyo bank plans rescue of loss-making broker

BANK of Tokyo is to mount a rescue operation, including capital and staff injections, for Dainana Securities, the loss-making broker, Reuter reports from Tokyo.

Mr Yoshiaki Ara, a former BoT official and currently managing director of Sanyo Securities, is to become president of Dainana.

Under the plan, Dainana will increase its capital – presently Y2bn ($15.78m) – through an issue of shares to a third party.

Dainana wants the Bank of Tokyo to send staff to the brokerage and accept new shares.

The broker, in which Bank of Tokyo is already a shareholder, posted a current loss of Y2.31bn for the year ended March 1992.

Industry sources said Bank of Tokyo's support for Dainana was unlikely to turn into an acquisition or a merger, although Japan is moving to allow banks to buy a financially-troubled brokerage house in line with reforms of its domestic financial system.

Ministry of Finance sources said it would accept a merger between a bank and an ailing brokerage house case by case after Japan lowered barriers between the banking and securities industry, which is expected in 1993.

● Lake, an unlisted Osaka-based consumer credit company, reported a parent net loss of Y71.9bn in the year to end-March 1992, against a Y10.5bn profit a year earlier.

FT GUIDE TO WORLD CURRENCIES

The table below gives the latest available rates of exchange (rounded) against four key currencies on Monday, June 15, 1992. In some cases the rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

COUNTRY		£ STG	US $	D-MARK	YEN (X 100)
Afghanistan	(Afghani)	99.25	53.4608	34.0188	42.1891
Albania	(Lek)	92.865	50.0215	31.8303	39.475
Algeria	(Dinar)	39.93	21.5082	13.6863	16.9734
Andorra	(Fr Fr)	9.8250	5.2922	3.3676	4.1764
	(Sp Peseta)	183.40	98.788	62.862	77.9596
Angola	(Kwanza)	998.02	537.581	342.081	424.238
Antigua	(E Carr $)	5.0147	2.7011	1.7188	2.1316
Argentina	(Peso)	1.8389	0.9905	0.6302	0.7816
Aruba	(Florin)	3.3246	1.7907	1.1395	1.4132
Australia	(Aus $)	2.4550	1.3223	0.8414	1.0435
Austria	(Schilling)	20.525	11.0557	7.0351	8.7247
Azores	(Port Escudo)	241.80	130.245	82.8791	102.784
Bahamas	(Bahama $)	1.8565	1	0.6363	0.7891
Bahrain	(Dinar)	0.6979	0.3759	0.2392	0.2966
Balearic Is	(Sp Peseta)	183.40	98.788	62.862	77.9596
Bangladesh	(Taka)	65.0	35.0121	22.2793	27.6301
Barbados	(Barb $)	3.7356	2.0121	1.2804	1.5879
Belgium	(Belg Fr)	59.90	32.265	20.5312	25.4622
Belize	(B $)	3.7146	2.0008	1.2732	1.579
Benin	(CFA Fr)	491.25	264.611	168.38	208.82
Bermuda	(Bermudian $)	1.8565	1	0.6363	0.7891
Bhutan	(Ngultrum)	52.0	28.0096	17.8234	22.1041
Bolivia	(Boliviano)	7.1785	3.8666	2.4604	3.0514
Botswana	(Pula)	3.9118	2.107	1.3408	1.6628
Brazil	(Cruzeiro)	5782.18	3114.56	1981.9	2457.89
Brunei	(Brunei $)	3.0092	1.6208	1.0314	1.2791
Bulgaria	(Lev)	32.24	17.366	11.0505	13.7045
Burkina Faso	(CFA Fr)	491.25	264.611	168.38	208.82
Burma	(Kyat)	10.9542	5.9004	3.7546	4.6564
Burundi	(Burundi Fr)	351.50	189.335	120.48	149.416
Cambodia	(Riel)	1578.70	850.364	541.114	671.073
Cameroon	(CFA Fr)	491.25	264.611	168.38	208.82
Canada	(Canadian $)	2.2140	1.1925	0.7588	0.9411
Canary Is	(Sp Peseta)	183.40	98.788	62.862	77.9596
Cp. Verde	(CV Escudo)	127.26	68.5483	43.6195	54.0956
Cayman Is	(CI $)	1.5787	0.8503	0.5411	0.671
Cent. Afr. Rep	(CFA Fr)	491.25	264.611	168.38	208.82
Chad	(CFA Fr)	491.25	264.611	168.38	208.82
Chile	(Chilean Peso)	657.07	353.929	225.217	279.307
China	(Renminbi Yuan)	10.1407	5.4622	3.4758	4.3106
Colombia	(Col Peso)	1156.14	622.752	396.278	491.452
CIS	(Rouble)	1.0370o	0.5585	0.3554	0.4408
		155.51m	83.7651	53.3024	66.1041
Comoros	(CFA Fr)	491.25	264.611	168.38	208.82
Congo (Brazz)	(CFA Fr)	491.25	264.611	168.38	208.82
Costa Rica	(Colon)	232.40	125.182	79.6572	98.7885
Côte d'Ivoire	(CFA Fr)	491.25	264.611	168.38	208.82
Cuba	(Cuban Peso)	1.4067	0.7577	0.4821	0.5979
Cyprus	(Cyprus £)	0.8358	0.4502	0.2864	0.3552
Czechoslovakia	(Koruna)	52.63c	28.349	18.0394	22.3719
		50.80t	27.3633	17.4121	21.594
Denmark	(Danish Kroner)	11.2175	6.0422	3.8449	4.7683
Djibouti Rep	(Djib Fr)	327.0	176.138	112.082	139.001
Dominica	(E Carrib $)	5.0147	2.7011	1.7188	2.1316
Dominican Rep	(D Peso)	24.1449	13.0056	8.2758	10.2635
Ecuador	(Sucre)	2636.53o	1420.16	903.695	1120.74
		2740.45a	1476.14	939.314	1164.91
Egypt	(Egyptian £)	6.16	3.318	2.1113	2.6184
El Salvador	(Colon)	14.8715	8.0105	5.0973	6.3215
Equat'l Guinea	(CFA Fr)	491.25	264.611	168.38	208.82
Ethiopia	(Ethiopian Birr)	3.7754	2.0336	1.294	1.6048
Falkland Is	(Falk £)	1.00	0.5386	0.3427	0.425
Faroe Is	(Danish Kroner)	11.2175	6.0422	3.8449	4.7683
Fiji Is	(Fiji $)	2.7421	1.477	0.9398	1.1656
Finland	(Markka)	7.9457	4.2799	2.7234	3.3775
France	(Fr)	9.8250	5.2922	3.3676	4.1764
Fr. Cty/Africa	(CFA Fr)	491.25	264.611	168.38	208.82
Fr. Guiana	(Local Fr)	9.8250	5.2922	3.3676	4.1764
Fr. Pacific Is	(CFP Fr)	176.0	94.802	60.3256	74.814
Gabon	(CFA Fr)	491.25	264.611	168.38	208.82
Gambia	(Dalasi)	16.2885	8.7737	5.583	6.9239
Germany	(D-Mark)	2.9175	1.5715	1	1.2401

COUNTRY		£ STG	US $	D-MARK	YEN (X 100)
Ghana	(Cedi)	755.0	406.679	258.783	320.935
Gibraltar	(Gib £)	1.00	0.5386	0.3427	0.425
Greece	(Drachma)	354.30	190.843	121.44	150.606
Greenland	(Danish Krone)	11.2175	6.0422	3.8449	4.7683
Grenada	(E Carr $)	5.0147	2.7011	1.7188	2.1316
Guadaloupe	(Local Fr)	9.8250	5.2922	3.3676	4.1764
Guam	(US $)	1.8565	1	0.6363	0.7891
Guatemala	(Quetzal)	9.5814	5.161	3.2841	4.0728
Guinea	(Fr)	1508.67	812.642	517.111	641.305
Guinea-Bissau	(Peso)	9286.50	5002.15	3183.03	3947.5
Guyana	(Guyanese $)	230.49	124.153	79.0025	97.9766
Haiti	(Goude)	9.2865	5	3.183	3.9475
Honduras	(Lempira)	10.3022	5.5492	3.5311	4.3792
Hong Kong	(HK $)	14.349	7.729	4.9182	6.0994
Hungary	(Forint)	145.41	78.3248	49.8406	61.8108
Iceland	(Icelandic Krona)	105.54	56.8489	36.1748	44.8629
India	(Indian Rupee)	52.0	28.0096	17.8234	22.1041
Indonesia	(Rupiah)	3762.70	2026.77	1289.7	1599.45
Iran	(Rial)	2650.0v	1427.42	908.312	1126.46
		119.70c	64.4761	41.0282	50.882
Iraq	(Iraqi Dinar)	0.5937	0.3197	0.2034	0.2523
Irish Rep	(Punt)	1.0915	0.5879	0.3741	0.4639
Israel	(Shekel)	4.5480	2.4497	1.5588	1.9332
Italy	(Lira)	2207.75	1189.2	756.727	938.47
Jamaica	(Jamaican $)	42.1607	22.7097	14.4509	17.9216
Japan	(Yen)	235.25	126.717	80.6341	100
Jordan	(Jordanian Dinar)	1.2556	0.6763	0.4303	0.5337
Kenya	(Kenya Shilling)	59.47	32.0333	20.3838	25.2794
Kiribati	(Australian $)	2.4550	1.3223	0.8414	1.0435
Korea North	(Won)	4.0489	2.1809	1.3877	1.7211
Korea South	(Won)	1459.42	786.114	500.23	620.37
Kuwait	(Kuwaiti Dinar)	0.5385	0.29	0.1845	0.2289
Laos	(New Kip)	1318.68	710.304	451.99	560.544
Lebanon	(Lebanese £)	3306.0	1780.77	1133.16	1405.31
Lesotho	(Maluti)	5.209	2.8058	1.7854	2.2142
Liberia	(Liberian $)	1.8565	1	0.6363	0.7891
Libya	(Libyan Dinar)	0.5065	0.2728	0.1736	0.2153
Liechtenstein	(Swiss Fr)	2.6250	1.4139	0.8997	1.1158
Luxembourg	(Lux Fr)	59.90	32.265	20.5312	25.4622
Macao	(Pataca)	14.8393	7.9931	5.0863	6.3078
Madagascar	(MG Fr)	3142.55	1692.73	1077.14	1335.83
Madeira	(Port Escudo)	241.80	130.245	82.8791	102.784
Malawi (1)	(Kwacha)	7.4292	4.0017	2.5464	3.158
Malaysia	(Ringgit)	4.6737	2.5174	1.6019	1.9866
Maldive Is	(Rufiya)	18.4058	9.9142	6.3087	7.8239
Mali Rep	(CFA Fr)	491.25	264.611	168.38	208.82
Malta	(Maltese £)	0.5830	0.314	0.1998	0.2478
Martinique	(Local Fr)	9.8250	5.2922	3.3676	4.1764
Mauritania	(Ouguiya)	157.72	84.9555	54.0599	67.0435
Mauritius	(Maur Rupee)	29.01	15.6261	9.9434	12.3315
Mexico	(Mexican Peso)	5611.27	3022.5	1923.31	2385.24
Miquelon	(Local Fr)	9.8250	5.2922	3.3676	4.1764
Monaco	(French Fr)	9.8250	5.2922	3.3676	4.1764
Mongolia	(Tugrik)	74.292	40.0172	25.4642	31.58
Montserrat	(E Carr $)	5.0147	2.7011	1.7188	2.1316
Morocco	(Dirham)	15.91	8.5698	5.4532	6.763
Mozambique	(Metical)	4374.48	2356.3	1499.39	1859.5
Namibia	(S A Rand)	5.209	2.8058	1.7854	2.2142
Nauru Is	(Australian $)	2.4550	1.3223	0.8414	1.0435
Nepal	(Nepalese Rupee)	86.6059	46.65	29.6849	36.8144
Netherlands	(Guilder)	3.2875	1.7708	1.1268	1.3974
N'nd Antilles	(A/Guilder)	3.3246	1.7907	1.1395	1.4132
New Zealand	(NZ $)	3.4177	1.8409	1.1714	1.4527
Nicaragua	(Gold Cordoba)	9.2865	5.0021	3.183	3.9475
Niger Rep	(CFA Fr)	491.25	264.611	168.38	208.82
Nigeria	(Naira)	34.27	18.45	11.7463	14.5674
Norway	(Nor. Krone)	11.40	6.1405	3.9074	4.8459
Oman	(Rial Omani)	0.7126	0.3838	0.2442	0.3029

COUNTRY		£ STG	US $	D-MARK	YEN (X 100)
Pakistan	(Pak. Rupee)	44.0	23.7005	15.0814	18.7035
Panama	(Balboa)	1.8565	1	0.6363	0.7891
Papua New Guinea	(Kina)	1.7721	0.9545	0.6074	0.7532
Paraguay	(Guarani)	2699.66	1454.17	925.333	1147.57
Peru	(New Sol)	2.22	1.1957	0.7609	0.9436
Philippines	(Peso)	43.00	23.1618	14.7386	18.2784
Pitcairn Is	(£ Sterling)	1.00	0.5386	0.3427	0.425
	(NZ $)	3.4177	1.8409	1.1714	1.4527
Poland	(Zloty)	25345.0	13652	8687.23	10773.6
Portugal	(Escudo)	241.80	130.245	82.8791	102.784
Puerto Rico	(US $)	1.8565	1	0.6363	0.7891
Qatar	(Riyal)	6.7376	3.6291	2.3093	2.864
Reunion Is. de la	(F/Fr)	9.8250	5.2922	3.3676	4.1764
Romania	(Leu)	481.12q	259.154	164.908	204.514
Rwanda	(Fr)	223.47	120.372	76.5964	94.9925
St Christopher	(E Carr $)	5.0147	2.7011	1.7188	2.1316
St Helena	(£)	1.00	0.5386	0.3427	0.425
St Lucia	(E Carr $)	5.0147	2.7011	1.7188	2.1316
St Pierre	(French Fr)	9.8250	5.2922	3.3676	4.1764
St Vincent	(E Carr $)	5.0147	2.7011	1.7188	2.1316
San Marino	(Italian Lira)	2207.75	1189.2	756.727	938.47
Sao Tome	(Dobra)	445.75	240.102	152.785	189.479
Saudi Arabia	(Riyal)	6.9416	3.739	2.3792	2.9507
Senegal	(CFA Fr)	491.25	264.611	168.38	208.82
Seychelles	(Rupee)	9.00	4.8478	3.0848	3.8257
Sierra Leone	(Leone)	780.066	420.181	267.375	331.59
Singapore	($)	3.0092	1.6208	1.0314	1.2791
Solomon Is	($)	5.3786	2.8971	1.8435	2.2863
Somali Rep	(Shilling)	4866.13	2621.13	1667.91	2068.49
South Africa	(Rand)	5.2090c	2.8058	1.7854	2.2142
		6.6097g	3.5603	2.2655	2.8096
Spain	(Peseta)	183.40	98.788	62.862	77.9596
Spanish Ports in N Africa	(Sp Peseta)	183.40	98.788	62.862	77.9596
Sri Lanka	(Rupee)	76.0	40.9372	26.0497	32.306
Sudan Rep	(Dinar)	18.573	10.0043	6.366	7.895
Surinam	(Guilder)	3.3153	1.7857	1.1363	1.4092
Swaziland	(Lilangeni)	5.209	2.8058	1.7854	2.2142
Sweden	(Krona)	10.5250	5.6692	3.6075	4.4739
Switzerland	(Fr)	2.6250	1.4139	0.8997	1.1158
Syria	(£)	37.61	20.2585	12.8911	15.9872
Taiwan	($)	45.925	24.7374	15.7412	19.5217
Tanzania	(Shilling)	553.94	298.379	189.868	235.469
Thailand	(Baht)	47.10	25.3703	16.1439	20.0212
Togo Rep	(CFA Fr)	491.25	264.611	168.38	208.82
Tonga Is	(Pa Anga)	2.4550	1.3223	0.8414	1.0435
Trinidad/Tobago	($)	7.8935	4.2518	2.7055	3.3553
Tunisia	(Dinar)	1.6478	0.8875	0.5647	0.7004
Turkey	(Lira)	12626.35	6801.16	4327.8	5367.21
Turks & Caicos	(US $)	1.8565	1	0.6363	0.7891
Tuvalu	(Australian $)	2.4550	1.3223	0.8414	1.0435
Uganda	(New Shilling)	2156.86	1161.79	739.284	916.837
U A E	(Dirham)	6.7978	3.6616	2.33	2.8896
United Kingdom	(£)	1.00	0.5386	0.3427	0.425
United States	(US $)	1.8565	1	0.6363	0.7891
Uruguay	(Peso)	5531.44	2979.5	1895.95	2351.3
Vanuatu	(Vatu)	206.23	111.085	70.6872	87.6641
Vatican	(Lira)	2207.75	1189.2	756.727	938.47
Venezuela	(Bolivar)	112.4112	60.55	38.5299	47.7837
Vietnam	(Dong)	20894.62	11254.8	7161.82	8881.88
Virgin Is-British	(US $)	1.8565	1	0.6363	0.7891
Virgin Is-US	(US $)	1.8565	1	0.6363	0.7891
Western Samoa	(Tala)	4.5021	2.425	1.5431	1.9137
Yemen (Rep of)	(Rial)	22.2876	12.0051	7.6392	9.474
Yemen (Rep of)	(Dinar)	0.8636	0.4651	0.296	0.367
Yugoslavia	(Dinar)	585.5640	315.413	200.707	248.911
Zaire Rep	(Zaire)	299950.0	161567	102811	127503
Zambia	(Kwacha)	280.45	151.064	96.1268	119.214
Zimbabwe	($)	9.3051	5.0121	3.1894	3.9554

Special Drawing Rights June 12, 1992 United Kingdom £0.762381 United States $1.41231 Germany D Mark 2.22227 Japan Yen178.516
European Currency Unit Rates June 15, 1992 United Kingdom £0.703334 United States $1.30553 Germany D Mark 2.04994 Japan Yen165.254

Abbreviations: (a) Free rate; (b) Banknote rate; (c) Commercial rate; (d) Controlled rate; (e) Essential imports; (g) Financial rate; (h) Exports; (i) Non commercial rate; (j) Business rate (k) Buying rate; (l) Luxury goods; (m) Market rate; (n) Public transaction rate; (o) Official rate; (p) preferential rate; (q) convertible rate; (r) parallel rate, (1) Malawi. Kwacha devalued by approx. 22% (11/6/92). (s) Selling rate; (t) Tourist rate (u) Currencies fixed against the US Dollar (v) Floating rate ;
Some data supplied by Bank of America, Economics Department, London Trading Centre. Enquiries: 071 634 4360/5.
Monday, June 15, 1992.

INTERNATIONAL CAPITAL MARKETS

Maastricht worries upset European markets

By Sara Webb in London and Patrick Harverson in New York

UNCERTAINTY over the prospects for economic and monetary union continued to upset the European government bond markets yesterday, with high-yielding markets seeing the worst falls.

Some dealers are waiting for Ireland's referendum on the Maastricht Treaty on Thursday, which is expected to yield a vote in favour of ratification.

Since Denmark's rejection of the Maastricht Treaty, investors have flocked to the safety of the D-Mark bloc. However, German government bonds ended lower yesterday as poor inflation data proved a disappointment to the market.

The cost of living in the former West Germany rose by a revised 0.4 per cent in May, giving a year-on-year rise of 4.6 per cent. Preliminary figures had suggested a month-on-month rise of 0.3 per cent. The Liffe bund futures contract opened at 88.20 and slipped to 88.06 in the early afternoon, ending at around 88.07.

■ THE UK government bond market fell back by nearly half a point due to the combination of funding worries, poor trade figures, and the general decline in the European bond markets.

The Bank of England is due to announce details of its next gilt auction today. It has already indicated that it will sell between £2bn and £3bn of stock in the 2007-2012 maturity range, but today's announcement will contain the exact amount and maturity of the auction issue.

GOVERNMENT BONDS

With the forthcoming auction already overhanging the market, some dealers were taken by surprise when the Bank announced on Friday that a £500m tranche of the 4⅛ per cent index-linked stock due 2030 would be available for sale with effect from today.

"Most of the focus at the moment is on new issuance and funding," said one trader, adding that the market will be waiting for the release today of the Public Sector Borrowing Requirement (PSBR) figures for May.

Traders said that against the background of supply worries, yesterday's trade figures did not help market sentiment.

The benchmark 11¾ per cent gilt due 2003/07 fell over half a point from 116⅞ to 115⅝ by late afternoon.

■ THE JAPANESE government bond market opened on a firm note yesterday after Friday's US inflation figures raised hopes that the Federal Reserve might ease short-term interest rates.

Dealers said the combination of a firmer US Treasury bond market and a stronger yen helped to buoy the Japanese bond market, which closed slightly higher on the day.

Most investor interest focused on short-dated rather than the longer-maturity bond issues. The benchmark No 129 issue opened with a yield of 5.48 per cent, moved to 5.495 per cent and closed at the highest level of the day yielding 5.475 per cent. Volumes were relatively light with only Y244bn traded in the No 129 bond.

■ US TREASURY prices were little changed yesterday in very quiet trading.

By late afternoon the benchmark 30-year government bond was up ⅛ at 101⅜, yielding 7.848 per cent, while the two-year note was unchanged at 100⅛, yielding 5.005 per cent.

The market appears to have given up almost all hope of another interest rate cut after the Federal Reserve's decision last week not to ease monetary policy in the wake of disappointing retail sales data and good inflation numbers. The likelihood that rates will stay where they are, coupled with the absence of important economic data, explained the lethargic session yesterday.

The only news out yesterday was 10-day auto sales for early June. The figures, showing that the annual rate rose during the period from between 6.2m and 6.3m units to 6.5m units, drew no reaction from investors.

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Change	Yield	Week ago	Month ago
AUSTRALIA		10.000	10/02	108.1556	+0.483	8.78	8.95	9.23
BELGIUM		9.000	08/01	100.3500	-0.300	8.94	8.87	8.83
CANADA *		8.500	04/02	102.3300	+0.0500	8.16	8.34	8.50
DENMARK		9.000	11/00	99.7500	-0.200	9.02	8.91	8.76
FRANCE	BTAN	8.500	03/97	97.9705	-0.295	9.02	8.92	8.76
	OAT	8.500	11/02	97.7900	-0.420	8.81	8.70	8.58
GERMANY		8.000	01/02	100.1700	-0.190	7.96	7.91	8.01
ITALY		12.000	02/02	94.9500	-0.645	13.34†	13.20	12.58
JAPAN	No 119	4.800	06/99	95.3685	-0.032	5.73	5.75	5.77
	No 129	6.400	03/00	105.0397	+0.027	5.47	5.51	5.53
NETHERLANDS		8.250	02/02	99.6700	-0.060	8.29	8.29	8.32
SPAIN		11.300	01/02	98.0250	-0.375	11.62	11.35	10.82
UK GILTS		10.000	11/96	102-25	-5/32	9.21	9.25	9.19
		9.750	08/02	100-25	-11/32	9.17	9.18	9.06
		9.000	10/08	99-12	-16/32	9.07	9.03	8.94
US TREASURY *		7.500	05/02	101-17	-	7.27	7.33	7.29
		8.000	11/21	101-21	+2/32	7.85	7.87	7.81
ECU (French Govt)		8.500	03/02	98.2200	-0.710	9.09	8.99	8.62

London closing, *denotes New York closing. Yields: Local market standard
† Gross annual yield (including withholding tax at 12.5 per cent payable by non-residents.)
Prices: US, UK in 32nds, others in decimal. Technical Data/ATLAS Price Sources

Buyers of property bonds look for firm foundations

By Simon London

THE SLUMP in the UK property market continues to pose awkward questions for holders of bonds issued by property companies and developers.

The downturn is still eating into the credit quality of issuers. Last week, IBCA, the UK credit rating agency, said it was reviewing the credit ratings of all the UK property companies it analyses.

The review covers the long-term credit ratings of some the UK's largest property investment companies: Land Securities, MEPC, Hammerson, British Land, Slough Estates, Capital & Counties and Brixton Estate.

Moody's and Standard & Poor's, the two biggest US rating agencies, have already downgraded a number of companies in the sector. Hammerson, for example, currently carries an A+ senior rating from IBCA, but is rated two notches below this level by Moody's and is already under review for a further downgrade.

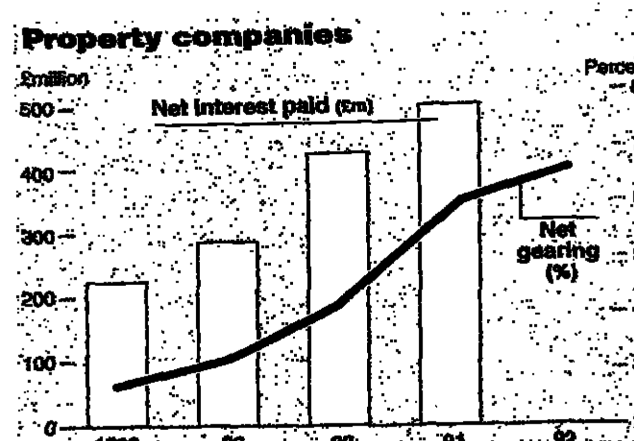
However, IBCA noted that the financial strength of property investment companies has shown an overall deterioration over the past two years. Of the companies rated by IBCA, debt interest cover averaged 1.7 times last year, down from 4.2 times in 1988. Average net gearing is now 60 per cent, up from 27 per cent in the same period.

Even holders of secured bonds may not be immune from the downturn. Last week, the accounts of Regalian, the property developer, were qualified by its auditors on the grounds that its development sites and empty properties had no firm value.

Against this background, bond market investors are demanding tighter covenants. Holders of debentures are particularly keen to keep track of the assets on which bonds are secured.

Until recently, most secured bonds issued by UK property companies were not secured on particular assets. Instead, the issuer has the option of moving properties in and out of the pool of security at will – a feature known as substitutability.

Property companies



Source: IBCA, all rated companies

The issuer has an obligation to maintain a pool of security of a certain value – usually 150 per cent of the face value of the bonds. But properties can be swapped in and out of the security pool without informing bondholders.

In contrast, most US property bonds are secured on a particular property or development. The assets are often "ring-fenced" within a special purpose vehicle and revenue from the property goes towards servicing the debt.

This does not insulate bondholders from falling property values. But the structure offers bondholders security of known quality.

"UK debenture holders assume they have proper security and look on their portfolio of mortgage bonds as insulated from concerns over corporate credit quality," said Mr Hugh Corbett, head of corporate bond research at UBS Phillips & Drew. "Yet the weakness of covenants means that in some cases they are little better off than unsecured creditors."

Analysts point to London & Provincial, a property subsidiary of Randsworth Acquisition, which went into administrative receivership in March.

In the year prior to receivership, L&P substituted properties out of the pool of assets which backed its £135m debentures, putting new assets in place. Under the terms of the issue there was no need to tell bondholders.

The trustee, Law & Debenture Trust, said a full valuation of the security now backing the bonds would take place before the end of June. But it is unlikely the valuation will be sufficient to meet the bond covenants.

There are signs that holders of UK bonds are looking for similar safeguards. Last week, Allied London properties added £25m to an existing £50m long-dated bond issue, lead-managed by Schroder Securities. The bond covenants oblige the company to tell holders when it substitutes new properties into the pool of security. This type of covenant is now standard in sterling debenture issues.

Amid the gloom there is an argument that debentures with strong covenants and ample security at current property prices now represent good value.

For example, last week's Allied London issue is backed by security valued at 1.67 times the issue amount – slightly higher than the norm in the late 1980s.

Moreover, since property valuations are now very low, the annual rental income from the bonds covers interest payments on the bonds 1.62 times, again higher than the usual ratio of interest cover in recent years. Together with tighter covenants, the position of bond holders should be more secure.

The Allied London debenture issue even carries "environmental protection" covenants, the first to do so: an environmental audit showed that none of the properties in the security pool were built on a contaminated site.

Canadian utility prepares to launch C$750m issue

By Simon London

HYDRO QUEBEC, the Canadian utility, was yesterday preparing to launch its third global bond, an issue of at least C$750m 30-year paper.

Syndicate officials expected the deal to be launched in the next two to three days. Yesterday, participants in the deal were discussing the fine details of the transaction with the issuer.

Outstanding long-dated global bonds, which can be traded in both domestic and Eurobond markets, issued by Hydro Quebec trade on a yield spread of 85-87 basis points over government bonds.

INTERNATIONAL BONDS

However, the bonds trade at a premium to face value following a sharp fall in Canadian bond yields last year. Some syndicate officials said a new issue could be launched at a marginally narrower yield spread.

Although European investors are strong buyers of Canadian dollar bonds, the long-dated maturity may appeal more to investors in north America. Bankers noted that earlier long-dated global bond issues have been "stripped" – repackaged into series of smaller zero coupon bonds – by investment banks in the US and Canada.

Elsewhere, the Eurodollar sector was seen as the most likely source of new issues. The Asian Development Bank is planning a $500m 10-year issue, via Goldman Sachs, although underwriters were not expecting the deal to emerge this week.

Nafinsa, the Mexican state-backed financing agency, has mandated J.P. Morgan to lead manage a $100m 10-year offering. Bankers expected the bonds to be priced at around 195 basis points more than US treasury bonds. Nafinsa's existing 10-year paper trades on a spread of around 185-190 basis points over treasuries.

European bond markets remain disturbed by uncertainty over the ratification of the Maastricht treaty on European monetary union. On Thursday, the Irish electorate vote in a referendum on the treaty. A rejection of Maastricht could cause a further sell-off, while a vote in favour could boost all European bond markets.

● The International Securities Market Association, the regulatory body for the Eurobond market, has won agreement from the Bank of Italy that ISMA rules on securities trading should apply to cross-border trading of Italian government securities.

A number of Italian and non-Italian banks are in dispute over the settlement of trades in Italian government bonds, some of which have been repudiated. ISMA said it "objects in the strongest possible terms to the unilateral cancellation of transactions".

● Salomon Inc, the parent company of Salomon Brothers, the US investment bank, has had its long-term credit rating raised by one notch to A+ by IBCA, the UK rating agency.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees	Book runner
D-MARKS						
SBAB(b)‡†	500	(b)	100	1996	25/15bp	Morgan Stanley
Fuji Marble(a)★★†	10	9	101.875	1997	-	Mitsubishi Bk.(Deutsch)
ECU's						
Credito Italiano(c)‡†	150	(c)	100	1997	25/15bp	IBJ Intl.
US DOLLARS						
Nissan Capital of Amer.(A)†	150	zero	70.775	1997	1⅜/1¼	Fuji Intl. Fin.Plc.
SWISS FRANCS						
Rabobank(a)†	75	7⅛	101½	1995	-	Swiss Volksbank
AUSTRIAN SCHILLINGS						
IADB(a)†	1bn	7⅜	101.5	2002	-	Bank Austria

★★Private placement. §Convertible. ♦With equity warrants. ‡Floating rate note. †Final terms. a) Non-callable. b) Coupon pays 12.5bp over 3 month D-Mark Libor. c) Coupon pays 20bp points above 6 month Libor.

MARKET STATISTICS

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Closing prices on June 15

U.S. DOLLAR STRAIGHTS / OTHER STRAIGHTS / DEUTSCHE MARK STRAIGHTS / FLOATING RATE NOTES / SWISS FRANC STRAIGHTS / CONVERTIBLE BONDS / YEN STRAIGHTS

U.S. DOLLAR STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield	OTHER STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield
ABN 9 1/8 94	200	105¼	106⅛	+⅛	6.14	BAYERISCHE VEREINS INT 7 94 LFr	600	94¼	95¼		9.87
ALBERTA PROVINCE 9 3/8 95	600	109	109¼	+⅛	6.30	COPENHAGEN TEL 8 5/8 96 LFr	600	98⅜	99⅛		9.15
AUSTRIA 8 1/2 00	400	105⅞	106⅛	+⅛	7.45	WORLD BANK 8 96 LFr	1000	96⅞	97⅞		8.98
[illegible]						[illegible]					

– No information available - previous day's price
‡ Only one market maker supplied a price

STRAIGHT BONDS: The yield is the yield to redemption of the bid-price; the amount issued is in millions of currency units. Chg. day=Change on day.
FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. Spread=Margin above six-month offered rate (three-month above mean rate) for US dollars. C.cpn=The current coupon.
CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	1	50	30
Other Fixed Interest	0	12	5
Commercial, Industrial	155	502	784
Financial & Property	53	300	442
Oil & Gas	14	22	50
Plantations	0	0	9
Mines	26	38	89
Others	41	44	47
Totals	290	968	1,456

LONDON RECENT ISSUES

EQUITIES

Issue Price p	Amount Paid up	Latest Renunc. Date	1992 High	1992 Low	Stock	Closing Price p	+ or -	Net Div.	Times Cov'd	Gross Yield	P/E Ratio
[illegible]											

FIXED INTEREST STOCKS

Issue Price £	Amount Paid up	Latest Renunc. Date	1992 High	1992 Low	Stock	Closing Price £	+ or -
[illegible]							

RIGHTS OFFERS

Issue Price p	Amount Paid up	Latest Renunc. Date	1992 High	1992 Low	Stock	Closing Price p	+ or -
[illegible]							

TRADITIONAL OPTIONS

● First Dealings June 8
● Last Dealings June 19
● Last Declarations Sept. 3
● For settlement Sept. 14

3-month call rate indications are also shown on this page.

Calls in Cannon Street Invs., Fisons, Kunick, Pilkington, Ratners, SEET, Tarmac and Vodaphone. Puts in Capita, Clarke Foods and Saatchi & Saatchi. Puts and calls in Fisons and Pilkington.

LIFFE EQUITY OPTIONS

Option		CALLS Jul	Oct	Jan	PUTS Jul	Oct	Jan
Alld Lyons (*664)	600	78	91	104	2½	8½	14
	650	29	55	70	12	24	30
[illegible]							

Option		CALLS Aug	Nov	Feb	PUTS Aug	Nov	Feb
BAA (*679)	650	50	72	82	11	17	23
	700	21	42	54	32	40	43
[illegible]							

Option		CALLS Jun	Sep	Dec	PUTS Jun	Sep	Dec
Eurotunnel (*334)	330	18	40	55	12	30	40
	360	5	25	40	35	50	52
[illegible]							

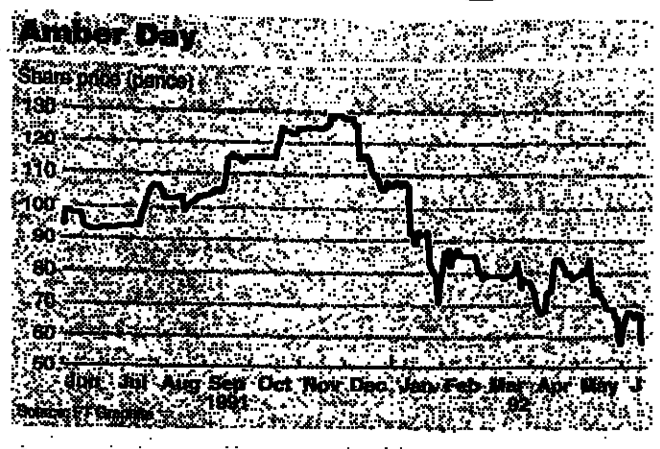
TRADITIONAL OPTION 3-month call rates

■ INDUSTRIALS	p	Charter Cons.	37	Ladbroke	18	Sears	8½	■ OILS	
Allied-Lyons	49	Comm Union	34	Legal & Gen	29	SmKl Bchm A	60	Aviva Pet	25
Amstrad	6	Courtaulds	43	Lex Service	22	TI	55	BP	18
Astec (BSR)	3	Eurotunnel	32	Lloyds Bank	32	TSB	11½	Burmah Castrol	48
BAT Inds	58	FKI	6	Lonrho	12	Tesco	22	Conroy Pet	8½
BOC	53	FNFC	7	Lucas Inds	12½	Thorn EMI	63	Gaelic Res	½
BTR	35	Forte	19	Marks Spencer	27	T & N	11½	Premier Cons	2¾
Barclays	29	GKN	33	Midland Bank	30	Unilever	70	Shell	35
Blue Circle	24	Gen Accident	38	NatWest Bank	28	Vickers	15	Tuskar Res	½
Boots	34	GEC	17	P & O Dfd	37	Wellcome	75	■ MINES	
Bowater	60	Glaxo	82	Racal Elect	5½	■ PROPERTY		RTZ	47
Brit Aerospace	28	Grand Met	38	RHM	18	Brit Land	18		
British Steel	7	GRE	13	Rank Org	56	Land Sec.	30		
Brit Telecom	25	Hanson	18	Ratners	3	MEPC	26		
Cadburys	38	ICI	95	Reed Intl	44	Mountleigh	1½		

Two directors to leave board as group reports trading levels below expectations

Amber Day downgrades forecast

By Andrew Bolger



AMBER DAY, the discount retailer, yesterday combined a profits warning with news of the resignation of the group's finance director and only non-executive director, both within a year of joining the group.

The shares closed 4p lower at 58p. However, the shares – which reached 129p last November – had already fallen 5p to 62p on Friday, ahead of a press report on Sunday which forecast the profits downgrade and boardroom departures.

Amber Day said yesterday the board had committed itself to splitting the roles of Mr Philip Green, the group's controversial chairman and chief executive.

Last year the group more than trebled pre-tax profits to £10.1m, thanks mainly to its acquisition in 1990 of the What Everyone Wants discount chain, operating in Scotland and the north of England.

The official statement said trading for the second half of the current year, to August 2, had not come up to budget and full-year profits would be below stockbrokers' current expectations. Analysts yesterday accordingly reduced their forecasts from £14m-£15m to about £12m.

While gross margins had increased, the group said sales levels had suffered from the sluggish retail environment and unusually poor weather conditions in Scotland this spring. Profits would suffer from a decline in sales on a like-for-like basis and non-recurring costs of about £500,000.

However, the group remained confident of the underlying strength of the core discount retailing business and strong cash flow. It, therefore, intended to recommend a final dividend for the year of 3.1p (2.4p) per share, an increase of 14.8 per cent.

Mr Graham Coles, who joined the group as finance director last June, is leaving to become finance director of First Leisure, the hotels and leisure operator. Amber Day said it was currently interviewing a short list of prospective candidates to succeed Mr Coles, who would remain until after his successor was appointed.

Also announced was the departure of Mr Leslie Warman, a former director of Lloyds Merchant Bank, who joined as the group's only non-executive last July. The board said it was actively seeking a replacement.

Amber Day's shares have suffered from bear raids and a personalised whispering campaign against Mr Green. Analysts said that, although the combination of yesterday's announcements was unfortunate, they did not in themselves seem to reveal any fundamental weakness in the group's business.

Philip Green: whispering campaign against him

However, they added that sentiment in the shares was unlikely to recover until Mr Green had demonstrated he could work – probably as chief executive – alongside someone with a solid track record in the City.

Mr Green was not available for comment yesterday.

People, Page 18

Recession-hit Renold tumbles £3m into the red

By Angus Foster

RENOLD, the chain and gear maker, yesterday announced its first loss since 1987 as recession hit demand in its main markets of the UK, Europe and North America.

The loss of £3m pre-tax for the 12 months to March 28 compared with a previous profit of £2.5m. The shares fell 3p to 57p.

Mr John Allan, finance director, said the outlook remained mixed. "February and March showed some improvement but May has been somewhat of a disappointment," he said.

Turnover dropped to £121.5m (£128.9m). The company said Germany, which accounted for 13 per cent of sales in 1991, weakened towards the end of the year after a strong start.

There was a £1.5m (£1.7m) exceptional loss for redundancy costs, mainly in Germany.

Total staff numbers have fallen 21 per cent since March 1990.

Interest charges rose in line with higher borrowings to £1.8m (£400,000).

Net borrowings at year-end increased to £12.8m (£10.4m), while gearing rose from 19 per cent to 25 per cent.

Losses per share emerged at 5.6p (earnings 1.4p) The company omitted its interim dividend but is recommending a final of 1p – shareholders received a 3.7p total previously.

A transfer from reserves of £4.4m covered losses and the dividend bill. Shareholders' funds fell from £54.8m to £50.4m.

Capital expenditure, mainly on new machine tools, fell to to £5m (£11.6m), but was still ahead of depreciation of £4.5m (£4m).

Vibroplant falls 27% to £4.5m and sees no sign of upturn

By Roland Rudd

MR JEREMY PILKINGTON, chairman of Vibroplant, the plant hire group, yesterday warned that construction levels are likely to remain depressed for the rest of the year as he announced a 27 per cent fall in pre-tax profits for the year end to March.

Although turnover remain broadly static at £76.8m (£77.9m) the stabilisation of prices at low levels across both sides of the Atlantic resulted in pre-tax profits falling from £6.2m to £4.5m.

While the profit fall was less than in previous results Mr Pilkington admitted to being "very disappointed" at heavy trading losses at its Baltimore business which was closed.

This contributed to the 39 per cent fall in US pre-tax profits to £1.2m, while sales rose 3 per cent to £38.9m (£37.6m).

In the UK turnover fell slightly to £37.9m (£40.3m) but severe pricing pressures eroded margins and pre-tax profits fell by 21 per cent from £4.2m to £3.3m.

Despite investing £14m in rental fleet and other assets borrowings were reduced by £9m to £37m, representing gearing of 70 per cent.

Borrowings fell because of cost cutting which resulted in the loss of 100 staff in both the US and UK and a fall in capital expenditure from £26m to £14m. Mr Pilkington said: "While prices remain at these low levels the business does not warrant new capital investment."

An extraordinary charge of £83,000 related to the writing-off of goodwill through the profit and loss account from a disposal which had been taken through reserves.

Earnings per share fell from 9.84p to 6.55p. The final dividend is maintained at 2.38p per share making an unchanged total of 3.6p.

NEWS DIGEST

Brighter outlook at Welpac

WELPAC, the hardware and electrical goods wholesaler and distributor, incurred a loss of £305,000 pre-tax for the year to January 31.

That compared with pre-tax profits of £13,000 for 1990-91.

However, the year under review was one of reorganisation and strategic development and in the second six months Welpac returned profits of £53,000 before tax and exceptional items compared with losses of £248,000 in the first half.

The full year loss, struck on turnover of £9.72m (£11.42m), took account of exceptional costs of £110,000 (nil) for redundancy and other reorganisation.

Interest charges took £209,000 more at £541,000 but over the second half the charge was cut from £361,000 to £180,000.

Losses per share emerged at 0.45p (earnings 0.42p). However, reflecting the recovery shown in the second half and expectations of a "reasonable out-turn" for the current year the company is returning to the dividend list via a 0.2p payment.

Year-end gearing was reduced from 126 per cent to 44.6 per cent.

BhS chief's £0.24m relocation costs

Mr David Dworkin, the chairman and chief executive of BhS who was recruited in 1989 from Bonwit Teller, the US chain, received £240,140 in relocation costs.

This was revealed in the annual report of Storehouse, the parent of BhS.

The exceptional compensation was in addition to his pay of £413,746, which reflected a 12 per cent rise on the previous year.

Relocation expense related mainly to the repayment of an outstanding loan on a house Mr Dworkin owned in the US, which was partly funded by his previous employer.

The annual report also disclosed that Mr John Braddell, the former marketing director, received £143,900 for loss of office.

Intercare makes £1.4m halfway

Trebled first-half profits were achieved by Intercare Group, which operates in the optical, dental and medical fields. Positive contributions came from four acquisitions.

In the six months ended April 30 1992 turnover expanded from £5.8m to £10.8m, and pre-tax profit surged from £452,000 to £1.4m. Earnings per share were 4.2p (3p) and the interim dividend is stepped up to 0.6p (0.5p).

The results included SAFA for one month, Birmingham Optical for two weeks, and Booster Electric Vehicles and Montis for the whole period. In addition, the group achieved organic growth.

Mr Peter Cowan, chairman, said the optical side had an excellent six months, highlighted by organic growth at Pennine and the two acquisitions.

Turnover at Pennine rose by more than 50 per cent. The acquisition of Birmingham took the division into higher value products.

In difficult market condition A-Z Dental performed in line with expectations and continued to trade profitably, while developing the increasing private sector with new services and products.

Booster continued to meet expectations and had made considerable advances in the current year, the chairman stated.

BBA expands in US airport facilities

BBA Group, the automotive and engineering and aviation services group, is buying Butler Aviation International. The purchase is being made through Page Avjet Airport Services, its US subsidiary.

Butler, based in Dallas, Texas, operates corporate aircraft terminals and airline support facilities. It will lift Page Avjet's facilities in the US from 20 operations at 18 airports to 42 operations at 38 airports.

On a pro-forma basis, the enlarged group would have achieved sales of some $260m (£142m) for the 1991 year.

VTech held back by personal computers

VTech Holdings, the Hong Kong-based electronics, computers and telecommunications group which is listed in London, saw pre-tax profit drop from $28.4m to $24.6m (£13.5m) in the year to March 31.

The outcome included $7.1m ($4.7m) exceptional credits comprising $16.8m surplus on the sale of 35.5 per cent of its holding in Central Point Software, less $9.7m costs involved in merging the computer distribution operations in the US.

Mr Allan Wong, chairman, said the results were also affected by conditions in the US personal computer market, but the diversified nature of the group's products enabled it to weather the effects of that.

Although sales of personal computers increased, substantial losses were incurred in the second half bringing that side of the business to break even over the year.

Under the reorganisation it was decided to focus only on higher end personal computer products on which improved margins could be obtained.

Turnover rose to $560.6m ($398.2m) with personal computers accounting for 64.7 (62.1) per cent. Nearly 23 per cent came from electronic toys and games, which had a successful year following the introduction of new products.

Diluted earnings per share were 14.6p (14.3p). The final dividend is 4 cents, payable August 4, to make 7 cents for the year (7.2 cents included special bonus).

Treatt shows 13% advance to £571,000

Pre-tax profits of Treatt, the USM-quoted supplier, blender and distiller of essential oils and aromatic chemicals, advanced by 13 per cent, from £506,000 to £571,000, in the six months to March 31.

The result was struck on turnover up by £2.18m to £7.41m. Earnings per share improved to 3.94p (3.49p) and the interim dividend is again 1p.

Mr Norman Talbot, finance director, said RC Treatt, the principal operating subsidiary, performed satisfactorily, with sales volumes up by 40 per cent and net profits improving by 13 per cent.

However, about a third of the increase in turnover was of an exceptional nature and unlikely to be repeated, he added, while the improvement in last year's second half at the Florida Treatt operation had not been sustained in the current year.

Clarke Hooper US disposal

Clarke Hooper has sold a US business for $462,500 (£254,000), the proceeds of which will be used for local capital requirements and to reduce group indebtedness.

The disposal is the Los Angeles based business of its US subsidiary, Joseph Potocki & Associates. JP&A broke even in the year ended April 30 1991 and incurred estimated pre-tax losses of $273,000 in 1991-92, including losses of the Atlanta office which was closed in April.

Mr Alan Penson, group chief executive, said the sale represented further progress consistent with the restructuringto strengthen the core business with selective US divestment.

Relyon sells Trident to management

Relyon Group, the furniture manufacturer, has sold its Trident Audio Developments subsidiary to its management for a nominal sum.

The divestment has involved a £2m write-down but will stem losses from Trident and enable the Relyon management to concentrate on the main activities of the group.

Allied London raises further £25m

Allied London Properties has placed a further £25m of its 10¾ per cent first mortgage debenture stock 2025. In total there is now £75m of the stock in issue.

The gross redemption yield was set at 10.946 per cent, representing 1.9 percentage points above the gross redemption yield of 9 per cent Treasury Loan 2008.

Proceeds will be used to refinance debt and in the group's business.

Southern Electric to market gas

Southern Electric and Phillips Petroleum Company UK have agreed to enter into a 50/50 joint venture to acquire and market gas.

Initially that will be gas released by tender from British Gas. But over time it is expected that the joint venture will market gas from other sources, including fields in which Phillips has an interest.

Entry into the gas supply market is consistent with Southern Electric's strategy to increase its non-regulated businesses and to become a leading energy utility.

Fall in demand cuts Wellman to £1.05m

WELLMAN, the broadly-based engineering group, saw its pre-tax profit fall almost £2m from £2.96m to £1.05m in the year ended March 31 1992, after reorganisation costs of £400,000.

The dividend is again 2.2p with a proposed final of 1.4p, and is just covered by fully diluted earnings of 2.4p, compared with 6.3p.

Mr Geoffrey Iley, chairman, said all parts of the group experienced lower activity levels.

Wellman Process and Wellman Bibby achieved higher profits although that did not offset a significantly lower contribution from Cadogan as British Aerospace partially withdrew work from sub-contractors.

Demand for furnace equipment remained depressed and Wellman Furnaces suffered a loss of £240,000 before reorganisation.

The attributable profit fell from £2.17m to £262,000 after taking into account £547,000 extraordinary charges relating to costs of withdrawing from two low margin businesses.

Turnover slumped from £33m to £24m. Forward order book at March 31 was similar to last year, and had since been enhanced by the acquisition of Midcast.

Interest cut helps Faupel to £1.2m

By Peter Pearse

A FALL in interest payable from £924,000 to £745,000 enabled Faupel Trading Group, the USM-quoted textile importer, to report pre-tax profits up by 8 per cent to £1.21m in the year to March 31.

The rise from £1.12m was struck on turnover 24 per cent ahead at £26.4m (£21.3m). Operating profits slipped from £2.04m to £1.95m.

Mr Iain Brown, chief executive, said that demand in the textiles sector was flat, but that Faupel's investment was in stock – mainly from China – not plant and machinery, giving it an advantage over domestic producers.

The company also had a "good spread of customers", such as BhS, Milletts, Laura Ashley, Selfridges, John Lewis, Harrods, JD Williams and Empire Stores, he said.

As for signs of any general economic upturn, Mr Brown had "seen half a robin on the lawn, but it flew away".

The household textiles division accounts for turnover of about £7m. The non-fashion garments side, which had turnover of about £16m, had a good autumn season, though the spring season was more "difficult".

In April Faupel "took the hard decision" and made a £431,000 extraordinary provision against its 19.6 per cent investment in New World Electronic Products, the infra-red security lighting company which went into receivership.

The directors have recommended maintaining the final dividend at 3.05p for a same-again total of 4.9p, payable from earnings of 10.22p (9.44p) per share.

British Land pays £22m for retail park

By Vanessa Houlder, Property Correspondent

British Land, the property group, has bought the Teesside Retail Park for £22m from the Teesside Development Corporation.

The park comprises 330,000 sq ft with 22 retail units, including Do It All, Texas and Comet. Three units are unlet.

British Land also announced yesterday that it is entering into negotiations with SmithKline Beecham about a joint venture to develop its office site alongside the M4 at Brentford, in west London.

SB owns 14 acres of land on two connected sites either side of the M4. It anticipates that it will occupy the first phase of the redevelopment. The Richard Rogers Partnership, architects, is advising on the scheme.

Windsor joins Premier League

By Richard Lapper

WINDSOR has won a contract to provide insurance for professional football's newly-formed Premier League, positioning it to take advantage of an expected influx of capital into the sport.

Windsor, which has acted as brokers to professional football's associations and clubs since 1972, is already the dominant force in a market which generated over £5m in premiums last year.

Under the terms of the deal, which is understood to be worth about £100,000, Windsor will supply personal accident and sickness covers and liability insurances for professional footballers.

It has also been reappointed by the Football League, which will now organise all English and Welsh clubs outside the Premier League.

The contracts will put Windsor in a prime position to win business to place insurances to cover stadia and extra personal accident insurance purchased by the clubs themselves.

The league's personal accident policies provide coverage of some £30,000 – for a premium of about £450 – while transfer fees for top players in the UK frequently exceed £1m.

Household Mortgage more than doubles to £5.16m

By David Barchard

HOUSEHOLD Mortgage Corporation, the privately-owned residential mortgage company, yesterday upstaged larger lenders by more than doubling its pre-tax profits in the year to March 31 despite the housing market recession.

In one of the strongest performances in the housing finance industry in 1991, HMC's taxable profits for the 12 months surged from £2.21m to £5.16m. Interest receivable rose from £228.43m to £258.66m, while other operating income was up from £4.87m to £9.45m.

Bad debt provisions remained relatively modest by the standards of other lenders at £4.16m, though sharply up from £2.2m last time. Operating expenses were up from £15.78m to £20.2m.

Total assets of £2bn were unchanged from last year and the customer base was maintained at 40,000. During the year HMC increased its asset base by purchasing mortgage books from several other lenders, including Westpac and Boston Safe.

Mr Maxwell Packe, finance director, said the increase in profits reflected a decision taken in the early stages of the recession by the company to concentrate on top quality customers.

The 13 institutions which own HMC will be paid a dividend of 4.5 per cent, totalling £1.4m.

A spokesman for the company said yesterday that HMC's long term plans included a possible stock market flotation when the housing market had recovered.

BET looking for a change of identity

By Richard Gourlay

BET, the business services company that reported a sharp fall in profits yesterday, is going through a fundamental change of culture.

After five years when the previous management made 170 acquisitions and very little was ever spared on capital expenditure, Mr John Clark, chief executive, is trying to turn what was effectively a financial holding company into an operating company.

Unfortunately, the climate in which he is trying to perform this alchemy is less than propitious. After a tough year in which it had to more than halve its dividend to 6.25p, barely covered by earnings, the economy is unlikely to give very much help.

"While considerable progress has been made at BET . . .more work will be needed over the next two years to . . .reposition BET as a dynamic growth company," Mr Clark said yesterday.

Operationally, BET's problems appear to be greatest in the UK where 57 per cent of sales are derived. Operating profits fell to £70.8m (£185.4m), although on lower sales after the disposal of Biffa, the waste management company.

Within the UK, plant services was badly hit by the recession which undercut margins and volume and led to a halving of operating profits to £31.6m. Textile services fell from £84.5m to £52.8m, again with most of the fall in the UK. Cleaning services fell marginally to £24m as did security services to £15.3m while distribution services performed well to fall only 4 per cent to £32.8m after a disposal.

BET's "other" services, which include the personnel and joinery businesses, fell from operating profits of £18m to a loss of £1.1m.

During the year Mr Clark said the company had focused on generating cash. It had cut its cost base by £62m, shedding 20,000 staff, at a one-off cost of £75m which was covered by previously established provisions.

"The importance of cash flow has been stamped on the culture of the company during the year," Mr Clark said. "We have to get productivity gains to offset inflation in order to retain as much as possible of that £62m."

Mr Clark said BET would be cash generative over the next year and strongly positive in the second half before taking into account the proceeds of disposals.

During the year BET also sold 10 small underperforming companies, utilising £8m of the £90m provision set up for the purpose at the interim stage. Mr Clark expected more than £100m as proceeds of the sale of other companies to be sold.

As part of the management and financial restructuring, BET has cut the number of profit centres from 170, with an average sales level of £30m, to 110.

After little more than a year at the helm of BET, Mr Clark dismissed the idea that business service companies were recession resistant, one of the late 1980 theories that once held water.

"Until you have been through a full cycle you do not know if the business is recession resistant," he said.

Dowty tells minorities to accept bid

Dowty, the aerospace and technology group recently acquired by TI, the specialist engineering group, has written to its shareholders advising those who did not accept TI's offer to do so.

Following TI's announcement that it won 60.23 per cent of Dowty, the board said it did not consider that it would now be in the best interests of its shareholders to remain as a minority.

Financial services operations help bolster profits for Botnar-controlled motor retailing group

AFGH pays out £20m in dividends despite fall to £65m

By Kevin Done, Motor Industry Correspondent

AUTOMOTIVE Financial Group Holdings, the UK motor retailing group controlled by Mr Octav Botnar which has lost its exclusive Nissan import and distribution franchise, suffered a 13 per cent fall in pretax profits, from £74.6m to £64.7m, in the year ended July 31 1991.

But the group remained probably the most profitable car retailer in the UK, largely thanks to its financial services operations.

Turnover declined by 11.9 per cent from £947.5m to £835.2m. No accounts have yet been filed for Nissan UK Holdings, the associate company.

Despite the decline in profit AFGH paid total dividends of £20m for 1990/91 after paying no dividend for the previous year.

Mr Michael Hunt, deputy chairman and assistant managing director who holds 10.63 per cent of the AFGH equity, received a dividend payment of £2.13m.

Mr Hunt was committed for trial last month to the Old Bailey on charges of corporation tax fraud. The charges allege that the pre-tax profits of Nissan UK had been understated by a total of £150m over a period of 17 years.

AFGH was formed in 1988 to comprise Nissan UK's car dealership and car finance operations. Mr Botnar separated these from the Nissan vehicle import and distribution businesses, which remained in Nissan UK Holdings.

According to the AFGH annual report the "ultimate parent undertaking" of the company is GF International Finance and Investments, incorporated in the Bahamas. This entity holds 71.52 per cent of the AFGH equity.

The "ultimate holding company" of Nissan UK Holdings is European Motor Vehicles Corporation, incorporated in Panama, which holds a stake of 71.52 per cent. Both the Bahamas and Panama entities are controlled by the same trustees of a settlement made by Mr Botnar in 1974.

Mr Hunt said earlier this week in the High Court, that Mr Botnar, chairman and managing director of AFGH as well as of NUKH, retains "the voting control" of the trust holdings.

Mr Botnar is currently in Switzerland. He was abroad when a warrant was issued for his arrest by the Inland Revenue at the end of January, and he has not since returned to the UK.

The Botnar-controlled companies are being drastically restructured in the wake of the dramatic move by Nissan Motor, the Japanese car maker, to terminate NUK's exclusive importer/distributor franchise for Nissan vehicles with effect from the end of 1991.

AFGH is replacing NUKH as the most important part of the Botnar-controlled businesses in the UK, and is urgently seeking to find new franchises for its shrinking wholly-owned AFG dealer network – which previously sold only Nissan new vehicles – which it described 16 months ago as "the largest automotive retailer in Europe."

In February 1991 AFG operated 160 new car dealerships. The AFG report says that this was reduced to 147 at July 31 1991 and to 132 since that date.

AFG said recently that it was seeking to establish a refranchised network of about 90 dealerships, which would still make it one of the UK's biggest multi-franchise dealer groups.

It has already taken on franchises from Peugeot, Citroën, Renault and Vauxhall, and Fiat Auto (UK) said last week that it expected to sign up a number of AFG dealerships soon. It is understood that Fiat may franchise some 18 AFG former Nissan sites.

Octav Botnar: being sought by the Inland Revenue

The AFG dealership subsidiary suffered a 13.4 per cent fall in turnover to £710m in 1990/91 from £820m a year earlier.

Pre-tax profit on ordinary activities fell by 23.8 per cent from £13.98m to £10.65m, although after-tax retained profit was boosted to £20.2m by an extraordinary gain of £14.2m described as final dividends received from the winding up of "dormant subsidiary undertakings".

According to AFGH's latest annual report the main contribution in the 12 months to July 31, 1991 came from its Automotive Financial Services subsidiary, which achieved a pre-tax profit of £26.9m, a fall of 6.6 per cent, on a turnover down from £122m to £107m.

Mr Botnar has acted to reduce AFS's dependence on the banks through the formation of Auto Funding, a wholly-owned subsidiary.

The AFGH report says that the financial services subsidiary had replaced "a significant part of its banking facilities" with medium-term funding by securitising a large part of its hire-purchase receivables through a £220m issue of floating rate notes by Auto Funding.

The AFGH report reveals that the loss of the Nissan franchise has forced the company largely to pull out of vehicle transporting.

It has sold the main part of the business and assets of its Car Removal subsidiary, which had generated a pre-tax profit of £10.8m in 1990/91, down from £13.8m a year earlier.

AFGH had an average workforce of 4,140 in 1990/91.

Lord Stevens, who told the annual meeting his moral obligation was to shareholders

Invesco MIM chairman denies obligation to MGN pensioners

By Norma Cohen, Investments Correspondent

INVESCO MIM, the investment company which managed £50m of Mirror Group Newspapers pension funds, has no moral obligation to help pensioners harmed by the late Mr Robert Maxwell, who controlled MGN, and will not be contributing to a government-sponsored trust intended to provide compensation, chairman Lord Stevens of Ludgate said yesterday.

Answering questions after the company's annual general meeting, Lord Stevens said "My moral obligation is to shareholders."

He said that while his company followed instructions from Bishopsgate Investment Management, another Maxwell company, to loan pension fund securities, all funds were returned to MIM. "The moral obligations belong elsewhere, not with us," he said.

Mr Peter Lilley, Social Security Secretary, has said that companies which had financial dealings with Mr Maxwell and had "profited handsomely" might feel a moral obligation to help pensioners.

A writ filed in early June by the present trustees of MGN's pension scheme alleges that MIM and other fund managers should have been suspicious for more than a year before Mr Maxwell's death about the stock lending they were carrying out on BIM's behalf, and that MIM received indications that loaned stocks were being used as loan collateral. The writ also alleges that in order to return all loaned securities to MIM, BIM had to dip into other pension funds.

Lord Stevens said that MIM intends to "vigorously contest" the writ which seeks £11.3m from his firm.

He said that MIM's suspicions about stock lending were not alerted by the fact that loaned securities were returned in the names of others because the Maxwell organisation was badly disorganised.

Meanwhile, the company's annual report, released yesterday, shows that Lord Stevens' salary was cut by nearly 20 per cent in 1991, down to £354,000 from £441,000 in 1990.

$1m bribe charge for ex-GWR employee

By Peggy Hollinger

GREAT WESTERN Resources, the oil and gas company which is in legal dispute with its once-largest coal customer, has announced the criminal indictment of a former employee.

Mr Clyde Goins, former president of Great Western Coal, is alleged to have taken a $1m bribe to encourage the $8.5m purchase by Great Western of the Burning Star Coal Company in 1988.

Mr Goins left GWR in September 1991.

The company said yesterday that it did not believe the indictment would have any material effect on the bankruptcy proceedings of its coal subsidiaries or the litigation with the public utility, South Carolina Public Services Authority.

"If the allegations are correct," a statement said, "GWR and its coal subsidiaries would have been victims of the alleged conspiracy and GWR will deal with this in an appropriate manner."

SCPSA had charged GWR's coal division, Mr Goins, and Mr Joe Norman, a former employee of the utility, with conspiracy, fraud and unfair trade practices.

In a separate case, SCPSA is also disputing in court the validity of certain coal contracts with GWR, which once represented more than 50 per cent of the natural resource company's revenue. The US utility is withholding some $33m in coal payments.

However, it was announced recently that the two companies have begun talks with a view to settling out of court.

Administrators abandon plan to float PPI Del Monte in US

By David Barchard

THE ADMINISTRATORS of Polly Peck International, the fruit and electronics group which collapsed in October 1990, confirmed yesterday that they have given up plans to float PPI Del Monte on the US stock exchange.

Instead the fresh fruit operation, purchased by Polly Peck in September 1989 for $875m (£557m), will be sold Several fruit distribution companies confirmed yesterday that they may bid.

Goldman Sachs, the US investment bank is advising the Polly Peck administrators on the sale.

The decision to sell PPI Del Monte ends almost two years of plans to float the company on the US stock exchange and represents a serious blow to hopes that Polly Peck creditors will be offered even the 20 per cent of their money back which was being discussed a year ago.

PPI Del Monte was considered the only asset of the group capable of raising a substantial amount of money.

Coopers & Lybrand Deloitte which handles the corporate finance side of the administration yesterday said that the decision to go for a private sale rather than a float reflected disappointing conditions in the international banana market early this year.

Del Monte Foods International, which is itself preparing for a flotation, is not connected with PPI Del Monte.

Lloyd's agency poised for big expansion move

By Richard Lapper

HAYTER BROCKBANK, the rapidly growing Lloyd's agency group which trades in London on a matched bargain basis, is set for substantial expansion in 1993, according to Mr Mark Brockbank, group managing underwriter.

Mr Brockbank made the prediction, as Hayter reported that all four of its syndicates had made profits in the 1989 year.

Lloyd's is expected to make a loss equivalent to £2bn, or nearly 20 per cent of its capital base, when it reports its global results later this month.

By contrast Hayter syndicates 253, 588, 861 and 929 all reported profits ranging from 2.69 per cent to 8.95 per cent of premium income.

The group's capacity (the amount of premium income it can accept according to Lloyd's rules) increased by 40 per cent for the 1992 year of account and now stands at £245m.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the subdivisions shown below are based mainly on last year's timetables.

TODAY

Interims- London & Clydeside.

Finals- Bradford Property Trust, Chillington, Cranswick, Erskine House, Hazlewood Foods, Melville Street Inv., National Power, Norweb, Safeland, Shelton (Martin), Volex.

FUTURE DATES

Interims-

Davenport Vernon	June 18

Finals-

Amber Industrial	June 22
Birkdale	June 23
Brent Walker	June 18
Bromsgrove Inds.	June 30
Bulgin (AF)	June 17
Camellia	June 25
ERF	June 24
Feedback	June 24
Fletcher King	June 22
GEC	July 1
JLI	June 24
Kalamazoo	June 25
London Electricity	June 24
Randfontein Estates	June 30
Rothmans Intl.	June 25
Smith (WH)	Aug. 26
Southern Electric	June 25
Stirling	June 18
Walker & Staff	June 30
Western Areas Gold	June 30
Whitecroft	June 23

DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Corres - ponding dividend	Total for year	Total last year
BET ...fin	2.25	Aug 27	9	6.5	13.25
E Midlands Elec ...fin	12	Oct 5	10.55	17.1	10.55
Faupel Trading §...fin	3.05	Aug 18	3.05	4.9	4.9
Intercare § ...int	0.6†	Aug 20	0.5	-	2
Renold ...fin	1	Aug 6	2.5	1	3.7
Treatt § ...int	1	Oct 9	1	-	3.4
Vibroplant ...fin	2.38	Oct 2	2.38	3.6	3.6
Wellman ...fin	1.4	Aug 18	1.4	2.2†	2.2
Welpac ...fin	0.2	-	nil	0.2	nil

Dividends shown pence per share net except where otherwise stated. †On increased capital. §USM stock.

COMMODITIES AND AGRICULTURE

LME acts to end zinc market squeeze

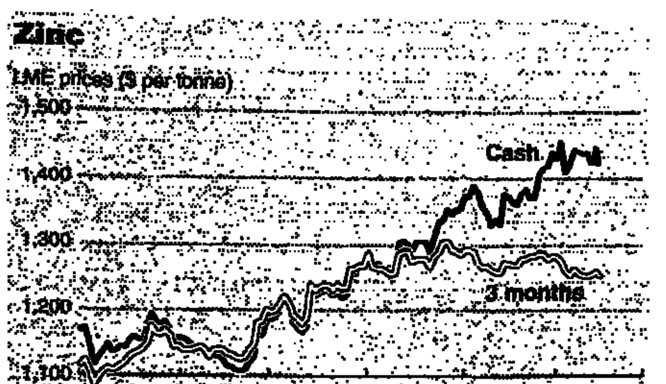
By David Blackwell

THE LONDON Metal Exchange acted yesterday to end the squeeze in the zinc market, which has taken the premium for cash metal over three-month metal to nearly $200 a tonne in spite of record stock levels.

After an emergency board meeting, the exchange announced that its was limiting the premium payable on spot metal to $15 a tonne per day until June 26, then to $10 until July 8, and finally to $5 until July 15. Any market user short of zinc and unable either to deliver on the above dates or to borrow metal (buy cash and sell forward) for the day at or below those premiums will pay an equivalent penalty. Users with long positions will be similarly compensated.

Mr David King, chief executive of the LME, said the board would be "meeting again during the course of this period to review the situation".

The technical shortage that has forced spot prices up is



thought to be related to increasingly sophisticated use of the options markets.

In the physical market LME warehouse stocks of zinc now stand at a record 277,300 tonnes, compared with 152,000 tonnes at the beginning of the year. The International Lead and Zinc Study Group yesterday put producer stocks at 344,000 tonnes at the end of April.

This situation angers consumers, who are encouraged by the LME to us the market to smooth out peaks and troughs in prices. Mr Robin Bhar, consultant to Carr Kitkat & Aitken, said that the large premium for cash metal – which was not reflecting the fundamental market position – meant that day-to-day users of the market were unable to hedge properly.

Yesterday cash zinc closed at $1,423.50 a tonne, down $24 on the day. The cash premium *over three-month metal* narrowed to $166 a tonne from $189.

Mr Angus MacMillan, analyst with Billiton-Enthoven Metals, said that the LME had been stuck between a rock and a hard place, and had come up with a sensible solution which would lead to an orderly market. "If you need to borrow for a day and there is a party on the other side, then he might as well lend the metal at $15 because he is not going to get any more," he said.

He pointed out that the zinc market was in oversupply last year, and supply would probably outweigh demand again this year.

The LME action follows two warnings to the market earlier in the year, the last time at the beginning of April. Mr Martin Abbott, marketing director of the exchange, said at the time that the LME had fired "a warning shot across the bows of anyone who might be thinking of playing any games in the zinc market".

Weather takes heavy toll of Indian tea

By Kunal Bose in Calcutta

UNFAVOURABLE weather, particularly in south India, continues to take a heavy toll of India's tea crop. In the first four months of the year production fell by 19.45m kg to 98.54m kg.

South Indian estates accounted for most of the decline, its crop being down by 18.62m kg. Tamil Nadu, reeling under a severe drought, had produced 23.9m kg by the end of April, compared with 35.72m kg in the corresponding period of last year. The crop is down by 6.61m kg to 12.15m kg in Kerala and by 190,000 kg to 1.06m kg in Karnataka.

As for north India, while production in Assam valley and Cachar was up 6.25m kg to 43.02m kg, West Bengal suffered a setback of 7.04m kg to 18.08m kg. The crop in minor *producing centres* showed a decline of 42,000 kg, to 328,000 kg.

According to J.Thomas, India's largest tea broking house, Sri Lanka, the second largest producer of tea in the world, has suffered an even bigger setback in production. The Sri Lankan crop to the end of April was 46m kg, compared with 79.1m kg in the same period of 1991. At 56.5m kg, the Kenyan crop has fallen by 11.5m kg.

Colombia tries to filter out excess coffee production

By Sarita Kendal in Bogota

THE SIZE of Colombia's coffee harvest – estimated at about 17m bags this year – has become both a financial burden and a political embarrassment. So much so that the government and Federacafe, the coffee growers' federation, are trying to devise ways of reducing production by 1m to 1.5m bags (60 kg each) and hope to have a scheme outlined before next week's International Coffee Organisation meetings in London.

The whole idea of pulling up coffee trees is a role-reversal for Federacafe's local committees, which were created to provide incentives for growers and to improve the quality and quantity of coffee produced. Their success, based on technical assistance, effective action against rust and other coffee tree diseases, cheap fertiliser and constant renovation, is reflected in today's output figures. Committees that increase *coffee production* have normally been rewarded with bigger budgets.

Since the collapse of the International Coffee Agreement in July 1989 Colombia's share of the world market has grown to nearly 18 per cent, with annual exports of some 13m bags. Local consumption absorbs another 1.5m bags and stocks have built up to more than 9m bags.

For the National Coffee Fund, which finances the purchase of the crop at a loss, the situation is clearly unsustainable. And for a country advocating better management to achieve higher prices, it is uncomfortable.

Although the domestic price paid to coffee growers has dropped, it is still high in comparison with international prices. Coffee is one of the most profitable legal crops in Colombia with an assured market. A further reduction in the support price would probably make little difference to the area planted with coffee – mainly because alternative crops do not bring a secure income.

At the top policy-making level, the government and the coffee authorities, as well as the private exporters, are all in agreement with the plan to take between 100,000 and 150,000 hectares (250,000-370,000 acres) out of production. But so far neither small nor large growers have shown any inclination to uproot their trees – in spite of the $1,500 to $1,800 per ha that has been mentioned as a possible incentive. The cost to the coffee fund would be close to the cost of buying the extra harvest over one year.

Colombia has about 1m ha of coffee distributed over several regions. The eradication plan will probably affect all the main production areas and is likely to target medium and large, rather than small, growers. Those who accept the plan may have to sign an undertaking not to plant coffee within a certain period. The main problem is to find alternatives for coffee farmers – among the possibilities are flowers, fruit, livestock and vegetables but none have such dependable earnings.

Exporters believe there is a good chance of establishing a new agreement. "We're seeing a new, active Brazil, this is a big change," said Mr Diego Pizano of Federacafe. "The Europeans are also supporting a new pact with quotas. There are difficulties of course but the basis could be agreed at the London meeting."

Colombia is arguing for a *quota distribution reflecting* performance during the free market period. Depending on the global quota, this would give Colombina exporters 11m to 12m bags – 1m less than current export volumes. Hence the need to adopt the domestically unpopular eradication plan.

Echo Bay sees prospects for diamond finds

By Robert Gibbens in Montreal

ECHO BAY Mines, a medium-sized gold producer with four mines in Canada and the US, says some claims it controls near last November's kimberlite find in the Northwest Territories could also contain diamond "pipes".

The staking rush at Lac de Gras, 200 miles north of Yellowknife, the NWT capital, now covers 13m acres and has reached Echo Bays' Lupin gold mine and its 17,000-acre mining lease.

More test results are expected shortly from a 160-tonne bulk sample extracted from the Dia Met/BHP-Utah property. On May 21 the joint venture of Canada's Dia Met Minerals and Australia's BHP group reported indications of 90 carats of diamonds with 25 per cent potentially of gem quality.

Echo Bay held exploration leases just east of the discovery, said Mr Richard Kraus, the company's president, after the annual meeting in Montreal. Also the winter road connecting Yellowknife and the Lupin mine crossed Lac de Gras near the discovery.

He said diamond exploration was very expensive and if Echo Bay wanted to explore its claims further "it would be done with partners".

"We are helping other companies in the logistics of diamond exploration. I can't say more because we are in registration with a US$100m convertible preferred issue."

Echo Bay's four mines, including Lupin, produced 734,000 troy ounces of gold and 5.6m ounces of silver last year. In the first quarter, it posted a small loss because of low bullion prices but the company said it expected a gradual recovery in the gold price to $360 to $375 an ounce by the end of the year.

This, together with the new stock issue, would bolster cash flow and enable debt to be reduced from the present $257m.

Mr Kraus said Russian sales had peaked and Asian prosperity was creating excellent fundamentals for gold. Far East fabricated demand, mostly for jewellery, was now three times North America's and world mine output was not growing.

Echo Bay has cut manpower by 15 per cent to 1,934 without affecting output. The Lupin mill's capacity will rise 15 per cent to 2,300 tonnes a day next year. Other improvements are coming at the Nevada mines and another mine in Washington State. Two Alaskan properties are ready to move ahead when gold prices improve.

Exploration is focussed on the Northwest Territories, British Columbia, Alaska, Washington State, Nevada and the western Rockies. In addition a senior executive is examining possibilities in the former Soviet Union.

Jamaica and Russia in talks on bauxite bill

By Canute James in Kingston

THE JAMAICAN and Russian governments are in negotiations about a dispute over payment for bauxite ore shipped last year by the island to the former Soviet Union.

Jamaican government officials say the ore was shipped under an agreement with Raznoimport, a Soviet importing house based in Moscow. The contract, for 1m tonnes of ore a year to be used in the Nicolayev refinery in the Ukraine, is "de facto dead although there has been no formal agreement to terminate it," according to Mr Carlton Davis, executive chairman of the Jamaica Bauxite Institute.

Mr Davis said the Jamaican government was seeking $4.5m from Raznoimport, which is still in business, for ore which was actually delivered. "This does not take into account ore *which was committed under* the agreement," he said.

Egypt 'could tap desert water'

By Tony Walker in Cairo

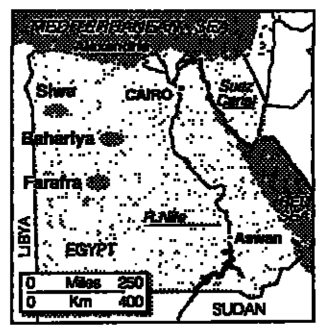
EGYPT'S WESTERN desert oases could support large-scale agriculture if vast underground water resources were tapped, an Egyptian hydrological expert believes.

Mr Ismail al-Ramly, a water resources consultant to the United Nations, says that years of studying the agricultural potential of the sparsely populated Western Desert had convinced him of the potential of the desert oases.

He estimates that the Farafra oasis some 400 km (250 *miles) south-west of Cairo* offers the best prospects, with sufficient water to cultivate about 200,000 acres of land, compared with the present 10,000 acres.

Bahariya, some 100 km closer to Cairo, was also a good candidate for vastly increased cultivation from the present about 10,000 acres to a potential of 100,000. The Siwa oasis towards the Libyan border could also support much increased cultivated acreage, Mr Ramly says.

The Egyptian expert says that his studies have established that, contrary to theo-



ries advanced earlier this century, Egypt's desert water resources are "self-contained." *In other words, desert aquifers* are not re-charged with water from surrounding Libya, Chad or Sudan. Rather, he believes that the water comes from seepage from the Nile at Qena in Upper Egypt where the river forms a giant "S". This water has made its way west along "tectonic zones" to aquifers under what is known as the "great sand sea" towards the Sudanese and Libyan borders.

Mr Ramly has also identified promising areas in the northern approaches to the Dakhla and Kharga oases, south of Farafra and Bahariya. But as yet little detailed work has been conducted in those areas.

Investigation of Western Desert water resources has been helped by an enhanced oil exploration programme. Data from oil drilling has enabled Mr Ramly to build up a fairly comprehensive hydrological picture that would not have been possible otherwise because of the cost involved.

He estimates that water resources available to Bahariya amount to about 1.8bn cu m, sufficient for 300 years of cultivation. He has yet to complete his evaluation of Farafra.

Western desert water is of *excellent quality, he says, and* compares favourably with that of the Nile.

Mr Ramly says large-scale agricultural development of the western desert would require big investments, but he is convinced the returns would be there.

For the Egyptian government, struggling to accommodate its growing population within the confines of the Nile valley and delta and to reduce its dependence on food imports, utilisation of the western desert oases may make sense – if the tapping of deep desert aquifers is cost efficient.

Palm oil stocks down

By Kieran Cooke in Kuala Lumpur

LABOUR SHORTAGE problems and better than expected exports have been blamed for a sharp drop in Malaysia's palm oil stocks.

The Malaysian Palm Oil Registration and Licensing Authority (PORLA) said that the country's palm oil stocks at the end of May stood at 456,000 tonnes – down more than 10 per cent from a month earlier.

Industry forecasts were for holding stocks of between 520,000 and 540,000 tonnes at the end of May. Traders were surprised at the steep fall in stocks and said part of the reason was the absence of some labourers from the palm oil plantations. Illegal immigrant workers, mostly Indonesians, *have to register with the* Malaysian authorities by the end of this month or face being expelled from the country.

Traders said another reason for the fall in stocks was increased exports during May, particularly to Pakistan. PORLA estimated that Malaysia exported 467,000 tonnes of palm oil in May, compared with 409,000 tonnes in April.

Malaysia produced 6.1m tonnes of palm oil in 1991, just over half of the total world output. Traders believe that supply shortages could push prices up on the local market in the short term.

Strike closes Canadian pulp and paper mills

By Robert Gibbens in Montreal

MOST OF British Columbia's pulp and paper industry has begun shutting down after two unions refused a management offer made at the weekend and mediation efforts failed.

The dispute concerns wages, removal of a statutory holiday and the employment of non-union labour. The unions say that the managements' pay offer did not come close to meeting their demands.

The province accounts for about 20 per cent of Canada's newsprint production and 12 per cent of the north American total. The company's have *about a month's supply in* stock but plenty of spare capacity exists in eastern Canada.

British Columbia represents 50 per cent of Canadian northern softwood pulp capacity and 18 per cent of north American and Scandinavian capacity. The mills are working at more than 90 per cent of capacity now and buyer stocks are sufficient for more than a month's paper production.

If the stoppage lasts several weeks, woodchips would pile up at the sawmills, forcing reductions in timber production.

WORLD COMMODITIES PRICES

MARKET REPORT

GOLD extended early gains to close on the London bullion market at $343 a troy ounce, up $3.15 from Friday's finish on the back of constructive technicals after an afternoon fix of $342.70. Dealers said that the market appeared to be building a base of support around $342, but concern remained over producer sell orders believed to be in place around current levels. A break *through $345-$346 would signal* a sharp move to $350. Comex gold futures were firmer at midday. "Gold is holding its gains from last week so it looks good," said one New York analyst. London **COCOA** prices closed down after speculative long liquidation in New York ahead of July's first notice day tomorrow. There appeared to be no sign of any major selling by producers, but the prospect of further sales continued to weigh on sentiment. Dealers said signs of increased flexibility *from Brazil at producer talks* in Ivory Coast were seen as mildly constructive. On the LME *solid buying interest helped keep* **TIN'S** upward momentum intact, with three-month prices hitting a new 25-month high of $6,590 a tonne. Many expect prices to hit an upside objective of $7,000 by the end of the month.

Compiled from Reuters

London Markets

SPOT MARKETS		
Crude oil (per barrel FOB)		+ or -
Dubai	$18.95-8.95z	+.225
Brent Blend (dated)	$21.25-1.40	+.175
Brent Blend (Aug)	$21.05-1.15	+.175
W.T.I (1 pm est)	$22.40-2.45z	+.125
Oil products (NWE prompt delivery per tonne CIF)		+ or -
Premium Gasoline	$234-237	+0.5
Gas Oil	$190-191	-1
Heavy Fuel Oil	$81-83	
Naphtha	$202-203	+1
Petroleum Argus Estimates.		
Other		+ or -
Gold (per troy oz)♣	$343.0	+3.15
Silver (per troy oz)♣	413.0c	+4.0
Platinum (per troy oz)	$371.5	-1.0
Palladium (per troy oz)	$81.30	+0.3
Copper (US Producer)	107.45c	+0.54
Lead (US Producer)	37.0c	
Tin (Kuala Lumpur market)	16.09r	+0.09
Tin (New York)	306.00c	+4.5
Zinc (US Prime Western)	62.0c	
Cattle (live weight)†	110.87p	+1.04*
Sheep (live weight)†♣	85.89p	-11.4*
Pigs (live weight)†	96.89p	+2.67*
London daily sugar (raw)	$254.5t	+1.9
London daily sugar (white)	$293.5t	+1.5
Tate and Lyle export price	£245.5	+0.5
Barley (English feed)	Unq	
Maize (US No. 3 yellow)	£149.0	
Wheat (US Dark Northern)	Unq	
Rubber (Jul)♥	52.25p	
Rubber (Aug)♥	52.25p	
Rubber (KL RSS No 1 Jul)	222.0r	-0.5
Coconut oil (Philippines)§	$615.0w	+10.0
Palm Oil (Malaysian)§	$425.0y	+15.0
Copra (Philippines)§	$400.0y	-2.5
Soyabeans (US)	£148.0	-1.5
Cotton "A" index	65.30c	+1.0
Wooltops (64s Super)	406p	-2

£ a tonne unless otherwise stated. p-pence/kg. c-cents/lb. r-ringgit/kg. t-Jun/Jul y-July w-Jul/Aug z-Aug. †Meat Commission average fatstock prices. * change from a week ago ♥London physical. §CIF Rotterdam. ♣ Bullion market close. m-Malaysian cents/kg. ♣Sheep prices are now live weight prices.

SUGAR – London FOX			($ per tonne)	
Raw	Close	Previous	High/Low	
Aug	235.00	229.00	232.40	228.60
Oct	223.40	219.00	221.40	218.40
Dec	209.00	208.00	204.00	
Mar	212.00	210.00	209.60	
Aug	206.00		203.00	
White	Close	Previous	High/Low	
Aug	288.00	287.20	287.00	285.50
Oct	274.00	272.20	274.50	271.00
Dec	273.00	270.20	272.50	268.00

Turnover: Raw 170 (137) lots of 50 tonnes. White 823 (583)
Paris- White (FFr per tonne): Aug 1291.5 Oct 1275.0

CRUDE OIL – IPE			$/barrel	
	Close	Previous	High/Low	
Jul	21.25	21.10	21.25	20.97
Aug	21.15	20.94	21.16	20.83
Sep	21.05	20.84	21.06	20.85
Oct	20.90	20.75	20.92	20.80
Nov	20.79	20.62	20.81	20.78
Feb	20.40		20.28	
IPE Index	21.02	21.14	21.02	

Turnover 29625 (33633)

GAS OIL – IPE			$/tonne	
	Close	Previous	High/Low	
Jul	189.75	190.25	190.25	188.75
Aug	191.25	191.75	191.75	190.50
Sep	193.50	193.75	193.75	192.75
Oct	196.00	195.75	198.00	195.00
Nov	197.50	197.25	198.00	196.75
Dec	198.75	198.50	199.00	198.00
Jan	196.75	196.25	196.75	196.75

Turnover 4727 (10069)lots of 100 tonnes

TEA

There was good general demand this week, reports the Tea Brokers' Association. Better liquoring East Africans were again a strong feature with prices often dearer. Mediums showed some irregularity but remained about steady. Plain teas tended easier with some withdrawals. Offshore fair demand in the cif section. Brightest Kenyas were firm to dearer but other descriptions declined by 2 to 3p where sold. Fob teas from Mauritius attracted little interest. The highest price realised this week was 165p for three kenya pf.1's. Quotations: quality 155p, good medium 139p, medium 100p, low medium 83p.

COCOA – London FOX			£/tonne	
	Close	Previous	High/Low	
Jul	519	525	525	517
Sep	537	545	546	535
Dec	572	579	580	570
Mar	602	610	611	602
May	622	630	634	622
Jul	641	650	645	642
Sep	661	670	665	663

Turnover: 3087 (4221) lots of 10 tonnes
ICCO indicator prices (SDRs per tonne). Daily price for Jun 12 661.38 (649.72) 10 day average for Jun 15 674.89 (677.43)

COFFEE – London FOX			$/tonne	
	Close	Previous	High/Low	
Jul	712	700	714	705
Sep	738	727	740	731
Nov	761	751	761	755
Jan	780	771	780	775
Mar	798	784	798	786
Jul	835		838	

Turnover:3426 (1554) lots of 5 tonnes
ICO indicator prices (US cents per pound) for Jun 12: Comp. daily 48.14 (47.59) 15 day average 49.18 (49.37)

POTATOES – London FOX			£/tonne	
	Close	Previous	High/Low	
Apr	90.5	86.3	91.0	88.5

Turnover 201 (110) lots of 20 tonnes.

SOYAMEAL – London FOX			£/tonne
	Close	Previous	High/Low
Aug	125.00	124.00	

Turnover 0 (0)lots of 20 tonnes.

FREIGHT – London FOX			$10/Index point	
	Close	Previous	High/Low	
Jun	1095	1115	1105	1090
Jul	1020	1044	1037	1020
Aug	1040	1060	1050	1040
Oct	1173	1185	1180	1170
Jan	1215	1229	1216	1215
BFI	1162	1172	1162	

Turnover 196 (159)

GRAINS – London FOX			£/tonne	
Wheat	Close	Previous	High/Low	
Jun	123.25	123.90	123.50	123.25
Sep	111.40	111.30	111.40	
Nov	114.40	114.40	114.40	
Jan	118.05	118.00	118.05	117.90
Mar	120.95	120.95	120.95	
Barley	Close	Previous	High/Low	
Sep	111.75	108.15	108.10	108.00
Nov	114.80		111.75	
Jan	114.80	114.85	114.60	

Turnover: Wheat 73 (127) , Barley 27 (17).
Turnover lots of 100 Tonnes.

PIGS – London FOX		(Cash Settlement) p/kg		
	Close	Previous	High/Low	
Jun	123.0	122.5	122.8	122.2
Jul	115.5	115.0	115.3	114.2
Aug	108.0	106.5	106.5	105.5
Nov	109.0	110.0	108.8	108.5
Feb	104.0		104.0	103.5
Mar	108.0		108.0	105.0

Turnover:32 (112) lots of 3,250 kg

LONDON METAL EXCHANGE				(Prices supplied by Amalgamated Metal Trading)		
	Close	Previous	High/Low	AM Official	Kerb close	Open interest
Aluminium, 99.7% purity ($ per tonne)						Total daily turnover 45,038 lots
Cash	1271.5-2.5	1270.5-71.	1265/1264	1264.5-5.0		
3 months	1297-8	1295.5-96	1298/1291	1290.5-1.5	1298-7	162,477 lots
Copper, Grade A (£ per tonne)						Total daily turnover 21,494 lots
Cash	1223-4	1224.5-25.5	1222/1219	1220-1		
3 months	1242.5-3.0	1246.5-46	1243.25/1241	1241-2	1243-4	106,056 lots
Lead (£ per tonne)						Total daily turnover 3,822 lots
Cash	290-1	295-5.50	291	290.5-1.0		
3 months	301-1.5	305.25-5.5	303/300	302-2.5	303-4	17,764 lots
Nickel ($ per tonne)						Total daily turnover 5,644 lots
Cash	7100-5	7185-90	7100	7100-5		
3 months	7165-90	7260-65	7240/7175	7200-10	7190-8	25,472 lots
Tin ($ per tonne)						Total daily turnover 2,742 lots
Cash	6535-40	6455-65		6535-7		
3 months	6565-70	6490-95	6590/6525	6565-70	6580-5	9,387 lots
Zinc, Special High Grade ($ per tonne)						Total daily turnover 16,029 lots
Cash	1423-4	1445-50	1451/1418	1450-1		
3 months	1257-8	1258-59	1259/1254	1258-9	1257-8	56,258 lots

LME Closing £/$ rate:
SPOT: 1.8585 3 months: 1.8299 6 months: 1.8064 9 months: 1.7851

LONDON BULLION MARKET
(Prices supplied by N M Rothschild)

Gold (troy oz)	$ price	£ equivalent
Close	342.80-343.20	
Opening	*342.00-342.50*	
Morning fix	342.25	184.134
Afternoon fix	342.70	184.644
Day's high	343.00-343.40	
Day's low	342.00-342.40	

Loco Ldn Mean Gold Lending Rates (Vs US$)			
1 month	3.46	6 months	3.36
2 months	3.41	12 months	3.47
3 months	3.36		

Silver fix	p/troy oz	US cts equiv
Spot	221.75	412.15
3 months	227.15	416.00
6 months	232.60	420.20
12 months	243.50	430.35

GOLD COINS
(Prices supplied by Engelhard Metals)

	$ price	£ equivalent
Krugerrand	342.75-343.75	184.75-185.25
Maple leaf	353.00-354.00	190.00-190.50
New Sovereign	83.00-84.00	44.50-45.00

TRADED OPTIONS

Aluminium (99.7%)	Calls		Puts	
Strike price $ tonne	Jul	Sep	Jul	Sep
1200	81	100	3	4
1300	4	32	23	34
1400	3	5	119	106
Copper (Grade A)	Calls		Puts	
2150	122	126	3	3
2250	28	48	6	23
2350	3	10	78	84
Coffee	Jul	Sep	Jul	Sep
650	52	92		4
700	14	52	2	14
750		25	38	37
Cocoa	Jul	Sep	Jul	Sep
500	19	44		7
525	2	28	8	16
550		16	315	29
Brent Crude	Aug	Sep	Aug	Sep
2100	49	49	54	
2150	26	78		
2200	9		20	

New York

GOLD 100 troy oz.; $/troy oz.				
	Close	Previous	High/Low	
Jun	343.1	342.9	343.5	342.2
Jul	343.8	343.6	0	0
Aug	344.9	344.7	345.6	344.2
Oct	346.8	346.6	347.3	346.1
Dec	348.8	348.6	349.5	348.1
Feb	351.1	350.9	351.2	351.2
Apr	353.4	353.2	354.0	354.0
Jun	355.8	355.7	0	0
Aug	358.4	358.3	0	0

PLATINUM 50 troy oz; $/troy oz.				
	Close	Previous	High/Low	
Jun	368.4	370.1	0	0
Jul	368.4	370.1	370.4	368.0
Oct	375.4	377.1	377.5	375.0
Jan	373.8	375.4	374.5	374.0
Apr	373.7	375.3	376.0	376.0

SILVER 5,000 troy oz; cents/troy oz.				
	Close	Previous	High/Low	
Jun	413.2	412.1	0	0
Jul	413.8	412.8	414.0	409.5
Aug	415.6	414.6	0	0
Sep	418.9	415.9	417.0	413.0
Dec	421.5	420.5	422.0	417.5
Jan	423.2	422.2	421.0	421.0
Mar	426.6	425.7	425.0	423.5
May	430.2	429.3	0	0
Jul	433.7	432.8	0	0
Sep	437.9	437.0	0	0

HIGH GRADE COPPER 25,000 lbs; cents/lbs				
	Close	Previous	High/Low	
Jun	103.50	103.65	103.55	103.50
Jul	103.45	103.40	103.50	103.00
Aug	103.50	103.35	0	0
Sep	103.55	103.35	103.55	103.10
Oct	103.55	103.35	0	0
Nov	103.50	103.30	0	0
Dec	103.45	103.25	103.45	103.20
Jan	103.15	102.95	0	0
Feb	102.85	102.70	0	0
Mar	102.70	102.55	102.70	102.55

CRUDE OIL (Light) 42,000 US galls $/barrel				
	Close	Previous	High/Low	
Jul	22.36	22.30	22.41	22.26
Aug	22.40	22.30	22.47	22.26
Sep	22.30	22.20	22.35	22.15
Oct	22.20	22.10	22.25	22.06
Nov	22.09	21.99	22.11	22.05
Dec	21.99	21.89	22.02	21.94
Jan	21.85	21.75	21.89	21.80
Feb	21.71	21.61	21.73	21.61
Mar	21.57	21.47	21.56	21.56
Apr	21.43	21.34	21.43	21.34

HEATING OIL 42,000 US galls, cents/US galls				
	Close	Previous	High/Low	
Jul	6104	6115	6155	6095
Aug	6162	6165	6210	6155
Sep	6276	6274	6305	6260
Oct	6356	6362	6390	6350
Nov	6441	6450	6490	6469
Dec	6517	6530	6580	6515
Jan	6522	6536	6570	6555
Feb	6387	6405	6430	6425
Mar	6137	6160	6205	6195
Apr	5912	5940	6000	5975

COCOA 10 tonnes;$/tonnes				
	Close	Previous	High/Low	
Jul	816	828	830	813
Sep	862	877	879	861
Dec	919	933	933	917
Mar	974	983	983	971
May	1008	1020	1015	1006
Jul	1036	1048	0	0
Sep	1063	1075	1069	1069
Dec	1103	1115	1111	1111

COFFEE "C" 37,500lbs; cents/lbs				
	Close	Previous	High/Low	
Jul	61.95	60.85	62.10	61.10
Sep	63.80	62.75	63.90	63.00
Dec	66.70	65.60	66.80	65.90
Mar	69.60	68.55	69.60	69.00
May	74.00	72.75	74.00	73.00
Jul	76.50	74.95	0	0
Sep	77.60	76.55	0	0

SUGAR WORLD "11" 112,000 lbs; cents/lbs				
	Close	Previous	High/Low	
Jul	10.51	10.27	10.60	10.28
Oct	9.85	9.70	9.93	9.68
Mar	9.67	9.53	9.72	9.51
May	9.57	9.43	9.65	9.47
Jul	9.47	9.36	9.48	9.37
Oct	9.34	9.25	0	0

COTTON 50,000; cents/lbs				
	Close	Previous	High/Low	
Jul	62.40	64.66	62.60	61.75
Oct	64.47	65.60	64.60	63.35
Dec	64.46	66.00	64.50	63.60
Mar	65.24	66.26	65.25	64.50
May	65.60	64.13	65.55	64.75
Jul	65.63	66.26	65.30	65.00

ORANGE JUICE 15,000 lbs; cents/lbs				
	Close	Previous	High/Low	
Jul	123.85	125.55	124.60	123.00
Sep	116.50	118.00	117.90	116.00
Nov	112.75	113.95	113.50	112.25
Jan	111.75	112.60	112.20	111.40
Mar	111.25	112.05	112.00	111.25
May	112.00	112.05	112.00	111.75
Jul	112.00	112.00	112.00	112.00
Sep	112.00	112.40	112.40	112.40

INDICES

REUTERS (Base: September 18 1931 = 100)			
Jun.15	Jun.12	mnth ago	yr ago
1590.8	1586.4	1597.9	1759.8

DOW JONES (Base: Dec. 31 1974 = 100)				
	Jun.12	Jun.11	mnth ago	yr ago
Spot	119.91	118.92	118.68	130.84
Futures	120.00	119.38	119.57	126.38

Chicago

SOYABEANS 5,000 bu min; cents/60lb bushel				
	Close	Previous	High/Low	
Jul	594/6	618/2	607/0	590/4
Aug	598/4	620/4	611/0	594/0
Sep	603/4	626/0	615/0	598/4
Nov	610/2	632/2	622/0	605/0
Jan	617/4	641/0	627/0	613/4
Mar	626/2	649/0	635/0	623/0
May	630/4	652/0	639/0	627/0
Jul	632/4	653/4	641/0	630/0

SOYABEAN OIL 60,000 lbs; cents/lb				
	Close	Previous	High/Low	
Jul	20.63	21.63	21.36	20.63
Aug	20.77	21.77	21.50	20.77
Sep	20.97	21.95	21.68	20.95
Oct	21.10	22.07	21.70	21.07
Dec	21.40	22.40	22.08	21.40
Jan	21.52	22.50	22.00	21.51
Mar	21.77	22.75	22.00	21.75
May	21.95	22.95	0	0

SOYABEAN MEAL 100 tons; $/ton				
	Close	Previous	High/Low	
Jul	179.4	183.8	181.6	177.5
Aug	180.2	184.6	182.2	178.5
Sep	180.7	185.4	183.5	179.5
Oct	198.1	203.4	199.0	196.5
Dec	198.8	204.0	201.0	196.5
Jan	199.0	204.3	200.5	197.5
Mar	200.0	205.0	200.0	199.0
May	200.0	206.5	200.0	200.0

MAIZE 5,000 bu min; cents/56lb bushel				
	Close	Previous	High/Low	
Jul	247/4	259/2	256/0	247/2
Sep	251/2	263/2	260/0	251/2
Dec	255/2	267/2	262/0	255/2
Mar	262/2	274/2	268/0	262/2
May	265/0	276/6	270/0	264/6
Jul	267/6	279/0	272/4	267/2
Sep	257/4	263/4	257/4	257/4
Dec	253/0	258/6	254/0	251/0

WHEAT 5,000 bu min; cents/60lb-bushel				
	Close	Previous	High/Low	
Jul	352/6	360/0	357/0	349/4
Sep	355/4	363/6	360/0	352/4
Dec	361/4	370/2	367/0	359/0
Mar	361/4	370/2	368/0	359/4
May	351/0	359/0	356/0	349/0
Jul	335/0	340/0	339/0	333/0

LIVE CATTLE 40,000 lbs; cents/lbs				
	Close	Previous	High/Low	
Jun	73.375	73.275	73.450	73.175
Aug	70.825	70.675	70.975	70.575
Oct	70.475	70.325	70.600	70.150
Dec	69.825	69.625	70.025	69.725
Feb	69.400	69.525	69.650	69.400
Apr	70.650	70.825	70.825	70.650
Jun	68.100	68.350	68.400	68.075

LIVE HOGS 40,000 lb; cents/lbs				
	Close	Previous	High/Low	
Jun	49.050	48.400	49.100	48.425
Jul	45.650	44.975	45.700	45.025
Aug	42.725	42.575	42.925	42.500
Oct	38.875	38.675	38.875	38.675
Dec	41.425	41.250	41.550	41.150
Feb	43.000	42.850	43.250	42.900
Apr	42.250	42.200	42.350	42.250
Jun	47.350	47.250	47.350	0

PORK BELLIES 40,000 lbs; cents/lb				
	Close	Previous	High/Low	
Jul	32.350	31.550	32.450	30.550
Aug	30.075	29.575	30.200	28.625
Feb	42.400	42.675	42.650	42.075
Mar	41.650	42.025	42.000	41.650
May	42.650	43.300	42.900	42.650
Jul	44.650	45.200	0	44.650
Aug	43.700	0	0	0

LONDON STOCK EXCHANGE

Traders heartened after shares rally

By Terry Byland, UK Stock Market Editor

INVESTMENT confidence was tested again in the UK stock market yesterday as the new trading account opened against a gloomy international and domestic backcloth. However, there was little selling pressure and the FT-SE 100 Index rebounded comfortably from a new resistance level, with traders sounding unperturbed by the day's loss of 10.1 on the index, which closed at 2,593.6.

Nevertheless, turnover remained very thin as the season for holidays and sporting highlights began to attract attention. Many share prices were hardly tested and the second half of the session saw substantial recoveries in some areas when marketmaking houses picked up cheap stocks. Fisons, for example, weathered a fresh selling bout to trim significantly the early loss.

Seaq-reported volume was slow to advance during the morning and the final total of 359.5m shares compared poorly with Friday's 497.7m. Stock index futures played a less forceful role as Friday's expiry deadline for the FT-SE June futures contract drew near.

The market traded a somewhat erratic path in early trading, opening nearly 15 Footsie points off but soon steadying almost to its overnight level. The lack of support then made itself felt and the Index gave ground to reach the day's low of 2,577.8, nearly 26 points down.

Account Dealing Dates		
*First Dealings:		
Jun 1	Jun 15	Jun 29
Option Declarations:		
June 11	Jun 25	Jul 9
Last Dealings:		
Jun 12	Jun 26	Jul 10
Account Day:		
Jun 22	Jul 6	Jul 20

*New-time dealings may take place from 8.30 am two business days earlier.

In addition to worries over the latest batch of trading results from leading UK companies, which upset the market last week, investors were discouraged by developments on the wider economic scale.

An upward revision of the UK trade deficit for the first quarter of the year did nothing to soothe worries about the domestic economy. Hopes for another cut in UK base rates were not helped by warnings from the Bundesbank president that he saw no room for a cut in German rates at present, nor from the Bank for International Settlement's rejection of suggestions that other EC countries might undercut German rates.

However, the stock market successfully withstood the assault on the Footsie 2,580 level which is regarded as an important defence line. After seeing the 2,650 and then the 2,600 levels swept aside, traders were clearly relieved to see yesterday's rally.

Very modest buying, mostly from within the market community rather than from genuine investors, proved enough to take the Index ahead steadily in spite of a poor opening to the new Wall Street session. When the Dow Average turned from an initial loss of 10 points to a net gain of 3.5 in UK trading hours, London closed in good form.

"There was no serious selling," said the head of a leading Japanese house, "and we could respond strongly to any positive news."

Several of the recent share price casualties turned in better performances yesterday. Midland steadied as arbitrage activity finally died away, leaving the market to await formal completion of the merger with Hongkong & Shanghai Banking Corporation. Pressure on oil shares also eased, leaving BP only pence lower on the day and Shell edging ahead as buyers came in at the close.

FINANCIAL TIMES STOCK INDICES

	June 15	June 12	June 11	June 10	June 9	Year Ago	1992 High	1992 Low	Since Compilation High	Since Compilation Low
Government Secs	88.70	88.82	88.71	88.63	88.60	83.83	89.62 (29/5)	85.11 (1/4)	127.40 (9/1/35)	49.18 (3/1/75)
Fixed Interest	104.42	104.63	104.44	104.49	104.53	92.94	105.92 (2/6)	97.15 (2/1)	105.92 (2/6/92)	50.53 (3/1/75)
Ordinary Share●	2026.4	2025.3	2039.5	2057.3	2056.6	1976.3	2149.7 (22/5)	1851.4 (3/4)	2149.7 (22/5/92)	49.4 (26/6/40)
Gold Mines	104.3	103.7	103.1	103.6	104.7	201.8	180.6 (10/1)	103.1 (11/6)	734.7 (15/2/83)	43.5 (26/10/71)
FT-SE 100 Share	2593.6	2603.7	2614.1	2636.1	2635.4	2522.3	2737.8 (11/5)	2382.7 (3/4)	2737.8 (11/5/92)	986.9 (23/7/84)
FT-SE Eurotrack 200	1199.73	1207.55	1207.41	1218.14	1218.45	1181.89	1248.79 (11/5)	1120.52 (8/1)	1248.79 (11/5/92)	939.82 (16/1/91)
●Ord. Div. Yield	4.57	4.56	4.54	4.50	4.51	4.82				
●Earning Yld %(full)	6.70	6.69	6.66	6.59	6.60	8.51				
●P/E Ratio(Net)(☆)	18.70	18.75	18.81	18.99	18.97	14.50				
SEAQ Bargns 5.00pm	21,207	27,661	22,751	22,156	22,902	28,081				
Equity Turnover(£m)†	-	1098.2	1283.0	953.1	1010.5	919.55				
Equity Bargains†	-	30,736	26,449	25,806	24,641	26,934				
Shares Traded (ml)†	-	471.2	520.3	417.7	384.9	420.9				

Basis 100 Govt. Secs 15/10/26, Fixed Int. 1928, Ordinary 1/7/35, Gold mines 12/9/55. Basis 1000 FT-SE 100 31/12/83 & FT-SE Eurotrack 200 26/10/90. ☆ Nil 17.35

Ordinary Share Index, Hourly changes — Day's High 2027.7 — Day's Low 2011.0

Open	9 am	10 am	11 am	12 pm	1 pm	2 pm	3 pm	4 pm
2015.8	2018.6	2027.0	2022.5	2018.3	2018.0	2011.5	2014.1	2023.9

FT-SE 100, Hourly changes — Day's High 2601.1 — Day's Low 2577.8

Open	9 am	10 am	11 am	12 pm	1 pm	2 pm	3 pm	4 pm
2588.9	2593.9	2599.8	2595.0	2587.4	2586.3	2578.9	2582.3	2592.1

FT-SE Eurotrack 200, Hourly changes — Day's High 1204.90 — Day's Low 1197.34

Open	10.30 am	11 am	12 pm	1 pm	2 pm	3 pm
1203.74	1204.32	1202.92	1201.15	1199.60	1198.10	1199.01

GILT EDGED ACTIVITY

Indices*	June 12	June 11
Gilt Edged Bargains	115.0	126.7
5 – Day average	105.7	101.9

*SE Activity 1974.
†Excluding intra-market business and Overseas turnover.

London report and latest Share Index: Tel. 0891 123001. Calls charged at 36p/minute cheap rate, 48p/minute at all other times.

Cloud over ICI shares

A REDUCED profits forecast for ICI prompted dealers to mark down the share price ahead of a presentation to analysts by the company on Thursday. The stock was down 27 at one stage and closed a net 18 off at 1267p, but turnover, at under 1m shares, was slim.

The negative sentiment came from Lehman Brothers, the US investment bank, which cut its 1992 estimate by £50m to £890m and decreased its 1993 figure by £80m to £1.09bn.

Mr Martin Glen, Lehman's chemicals analyst, said he had been a seller of ICI previously but was inspired to slice his forecasts because of external factors. He saw no improvement in European chemicals demand, believed the recent Common Agriculture Policy reforms would lead prices to fall by between 20 and 30 per cent, and said that Tenormin, ICI's best selling drug, was losing US market share more quickly than anticipated.

There was further pressure from speculation that US broker C.J. Lawrence had also reduced forecasts, although no-one from the house was available for comment yesterday. Finally, some observers said Goldman Sachs was still holding a large chunk of the 20m shares it had bought from Hanson for 1400p apiece in early May and that stock was still overshadowing the share price.

Utility tremors

Results from the electricity sector are likely to provide continuing ammunition for the anti-privatisation lobby, according to analysts, but the figures should be regarded with caution and look like being in line with expectations.

Yesterday's announcement of a 41 per cent rise in profits from East Midlands Electricity was much as forecast and left the share price unchanged at 293p. The market took a relaxed attitude towards the comment from Professor Stephen Littlechild, director-general of electricity supply, that he plans to "set tougher standards" for the distribution companies and eliminate sharp swings in customer prices.

Ms Liz Christie, analyst at Goldman Sachs, said such comments are not very threatening and that the regulatory mechanism is working well, given the terms of the government's price controls.

Norweb, down 6 at 334p, reports today and the market expects a profit rise of 80 per cent. Although this may produce further adverse comments it was pointed out that the company was involved in very big one-off costs last year.

Today's figures from National Power, 2 higher at 241p, will be looked at to see whether the profit and dividend are up to the same level as the recent results from PowerGen, unaltered at 248p.

Vodafone weak

Plans announced yesterday by mobile phone operator Cellnet to restructure its pricing policies and strengthen its consumer operations prompted renewed worries that rival operator Vodafone will be forced to respond, as the two companies gear up for the launch of personal communications network (PCN), a cheaper but more specialised version of cellular for which the government plans to issue licences late next year.

Although the move by Cellnet, in which BT has a 60 per cent stake and Securicor the remainder, had been widely expected, the rekindling of the threat of a price war upset sentiment in a weak telecoms sector. Vodafone dropped 18 to 334p, although 3p of the fall represented dividend payment. Turnover was a brisk 6.4m.

BT, whose shares dipped 3 to 347½p, announced after the market closed that it had sold its controlling equity interest in Canadian telecoms group Mitel at a loss of C$120m.

Business services group BET closed a net 4 lighter at 136p after the company reported a slump in full-year profits after exceptional charges to £18.5m from a previous £217m, and also cut the dividend.

One market observer said: "Everyone was resigned to the dividend cut and reasonably prepared for the fall in profits." This may have helped the shares partially recover from a fall sustained earlier in the session. Turnover rose to 7.7m.

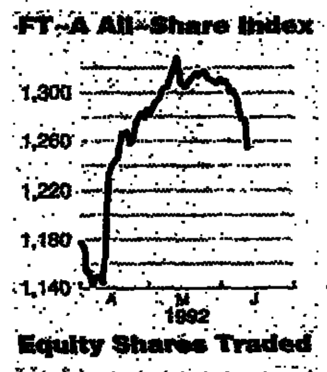
French stockbroker Société Générale Strauss Turnbull is refusing to lighten its gloomy view of BP. Superbear Mr John Toalster said after a long talk with the company that he was planning to cut his profits forecast once again in the belief that second-quarter figures would be "pretty dreadful".

Mr Toalster has reduced his replacement cost profits forecast by £70m to £430m and argues that the only support for the share price is in the firm underlying oil price. BP eased 1½ to 259¼p on thin volume of 3.3m shares.

Lasmo rose 5 to 199p on optimism ahead of the pricing of the sale of its Ultramar unit's North American assets. The price is due to be set tomorrow. Turnover of 3.6m shares was boosted by an agency cross of ½m shares.

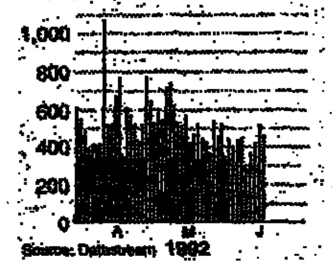
Concern about the British Aerospace dividend and worries that the company may be forced to make provisions continued to weaken the shares, which ended 8 lower at 294p.

FT-A All-Share Index



Equity Shares Traded

Turnover by volume (million) Excluding: Intra-market business & Overseas turnover



Source: Datastream 1992

Explaining the current mood, Mr Keith Hodgkinson at Lehman Brothers said: "The market is coming to a realistic position on issues such as current trading, dividend prospects and possible provisions."

Continued selling following the company's profits warning on Friday ensured that Fisons was the most heavily traded stock yesterday. The stock fell 24 but then rallied to close only 7 off at 238p as dealers felt a level had been reached.

Regional brewer J.A. Devenish gained 11 to 289p xd as speculation mounted that Boddington, unsuccessful in a bid attempt last year, will soon announce a renewed offer. Boddington eased 4 to 177p.

Discount retailer Amber Day warned that a poor second half meant annual profits will be below analysts' expectations. The shares declined 4 to 58p in spite of reassurances from the company that its core business is strong.

Leading leisure stocks fared poorly in a dull sector. Ladbroke held up against a downgrade and a sell note from Paribas after a worthy annual statement, easing just 1¼ to 211p. Granada, shortly to join the FT-SE 100 Index, lost 6 to 261p, Rank Organisation, dulled by recent downgrades, shed 11 to 700p, while Thorn EMI gave up 14 to 834p after a recent good run.

Critical weekend press comment stung Forte, although the shares recovered to close 4 off at 218p.

Property shares remained under a cloud, with few features to tempt prospective buyers. Hammerson's announcement that it had secured more tenants for a prestigious New York office block failed to help the shares, 5 down at 363p.

MARKET REPORTERS:
Christopher Price, Peter John, Joel Kibazo, Colin Millham.

■ Other market statistics, Page 25

TRADING VOLUME IN MAJOR STOCKS

	Volume 000's	Closing Price	Day's change
[illegible]	[illegible]	[illegible]	[illegible]

Based on the trading volume for a selection of Alpha securities dealt through the SEAQ system yesterday until 4.30pm. Trades of one million or more are rounded down.

EQUITY FUTURES AND OPTIONS TRADING

REVISED figures showing a further widening in the UK trade gap in the first quarter of this year joined with the poor overnight market performance in Tokyo to dominate a volatile session in the derivatives market, writes Joel Kibazo.

The poor showing in Tokyo caused a weak opening in stock index futures and the June contract on the FT-SE opened just below the 2,600 level, although at a premium to the underlying cash market. However, the covering of short positions pushed June forward to 2,606 by about 10.15am, the high of the day.

The revised UK quarterly current account figures sent June into decline once again, the contract falling to 2,577 by around 2.15pm. The recovery of Wall Street after a tentative opening helped June to regain some lost ground and it closed at 2,593, at the same level as the underlying cash market. Fair value has dropped to parity with cash this week. Turnover at just over 7,000 contracts was light.

Traded options volume was reasonable, reaching 35,333 contracts. The FT-SE option traded 14,442 lots. Amstrad was the busiest stock option as Sheppards sold the September 40 straddle – the selling of calls and puts at the same strike price. A total of 3,320 contracts had been dealt in Amstrad by the close.

FT-ACTUARIES SHARE INDICES

	EQUITY GROUPS & SUB-SECTIONS (Figures in parentheses show number of stocks per section)	Mon Jun 15 Index No.	Day's Change %	Est. Earnings Yield% (Max.)	Gross Div. Yield% (Act at (25%)	Est. P/E Ratio (Net)	xd adj. 1992 to date	Fri Jun 12 Index No.	Thu Jun 11 Index No.	Wed Jun 10 Index No.	Year ago (approx) Index No.
1	CAPITAL GOODS (178)	851.91	-0.4	6.76	5.41	19.20	16.21	855.64	864.43	873.84	831.20
2	Building Materials (22)	959.01	-0.8	5.84	5.84	23.02	22.03	966.88	987.31	998.31	1055.72
3	Contracting, Construction (28)	878.69	-1.1	4.05	6.87	52.38	24.60	888.75	937.50	948.99	1272.77
4	Electricals (8)	2562.71	+0.4	6.73	6.02	19.32	68.82	2553.50	2609.15	2660.48	2395.23
5	Electronics (29)	1979.23	-0.2	8.08	4.30	15.60	9.02	1982.66	1983.39	1994.85	1748.54
6	Engineering-Aerospace (6)	364.26	-1.4	10.01	7.16	12.64	11.27	369.52	377.59	382.27	422.55
7	Engineering-General (44)	537.22	-0.7	7.45	4.43	16.68	9.02	540.88	548.89	554.41	451.34
8	Metals and Metal Forming (8)	336.05	-1.1	0.82	10.30	-	3.54	339.73	344.92	348.72	461.53
9	Motors (14)	361.99	+0.3	7.34	6.49	17.93	10.04	360.94	366.67	375.48	330.48
10	Other Industrial Materials (19)	1787.04	-0.1	6.93	4.64	17.38	34.66	1788.46	1777.36	1794.94	1520.80
21	CONSUMER GROUP (189)	1664.80	-0.4	7.33	3.44	16.76	23.58	1671.39	1674.77	1690.63	1483.51
22	Brewers and Distillers (24)	2171.56	+0.3	7.74	3.41	15.60	29.32	2164.05	2172.50	2178.92	1824.30
25	Food Manufacturing (18)	1273.11	-0.6	8.48	4.13	14.60	23.82	1281.29	1283.14	1285.31	1170.69
26	Food Retailing (18)	2875.79	-0.5	8.44	3.17	15.52	44.51	2889.60	2873.18	2894.84	2698.59
27	Health and Household (24)	3950.86	-0.1	6.98	2.68	16.33	36.33	3954.81	3968.66	4056.94	3578.84
29	Hotels and Leisure (20)	1323.67	-1.4	5.98	5.11	21.67	23.50	1342.23	1359.30	1373.07	1287.60
30	Media (25)	1591.12	-0.9	6.13	3.30	20.31	25.88	1605.94	1596.85	1618.74	1422.89
31	Packaging, Paper & Printing (17)	809.98	-1.3	6.36	4.08	19.07	14.29	820.35	824.76	832.60	697.76
34	Stores (33)	1057.70	-0.6	7.24	3.50	18.26	15.85	1063.62	1063.67	1065.83	907.48
35	Textiles (10)	697.97	-1.5	6.58	4.45	19.17	12.44	708.77	720.18	722.90	553.57
40	OTHER GROUPS (116)	1278.00	-1.1	9.67	5.08	12.92	19.74	1291.87	1297.63	1303.65	1238.13
41	Business Services (17)	1418.98	-0.3	6.90	3.63	18.28	15.14	1422.62	1438.64	1446.60	1240.37
42	Chemicals (22)	1512.77	-0.8	7.06	4.82	17.38	31.75	1525.03	1526.18	1534.44	1405.39
43	Conglomerates (11)	1323.41	-0.9	9.76	7.18	12.80	23.62	1335.72	1349.62	1364.19	1466.44
44	Transport (14)	2536.79	-1.7	8.01	4.62	15.17	49.58	2581.56	2650.73	2662.17	2229.25
45	Electricity (16)	1317.47	-0.2	13.53	5.10	9.40	17.21	1320.63	1310.65	1311.12	1207.54
46	Telephone Networks(4)	1407.92	-1.2	10.90	4.65	11.98	17.36	1424.46	1427.26	1434.79	1485.19
47	Water(10)	2714.26	-2.7	16.09	6.12	6.87	54.92	2790.26	2820.79	2834.35	2310.33
48	Miscellaneous (22)	2046.52	-1.1	5.76	4.82	22.93	23.41	2069.62	2061.70	2064.25	1948.20
49	INDUSTRIAL GROUP (483)	1339.91	-0.6	7.96	4.32	15.67	20.72	1348.21	1354.03	1365.15	1247.19
51	Oil & Gas (17)	2135.20	+0.3	7.10	6.66	18.50	63.69	2127.95	2157.55	2161.93	2400.46
59	500 SHARE INDEX (500)	1413.89	-0.5	7.87	4.57	15.93	24.01	1421.23	1428.78	1439.59	1345.39
61	FINANCIAL GROUP (86)	748.21	-0.4	-	6.06	-	19.80	751.30	759.50	767.74	790.84
62	Banks (9)	945.02	-0.2	5.10	5.78	31.00	24.58	946.81	961.32	972.93	876.09
65	Insurance (Life) (6)	1523.25	-0.3	-	5.85	-	44.26	1528.39	1551.89	1577.84	1506.54
66	Insurance (Composite) (7)	539.81	+0.7	-	6.45	-	13.46	536.04	532.89	542.61	674.05
67	Insurance (Brokers) (10)	920.26	-1.0	8.29	7.09	15.88	29.69	929.65	943.76	954.19	1116.06
68	Merchant Banks (7)	500.26	-1.4	-	4.32	-	11.25	507.13	512.01	514.80	423.31
69	Property (32)	654.40	-1.9	8.95	7.00	15.12	18.82	667.03	671.52	668.10	929.29
70	Other Financial (15)	251.43	-1.1	7.24	6.94	18.74	5.32	254.15	258.24	259.31	274.94
71	Investment Trusts (69)	1184.56	-1.2	-	3.79	-	18.05	1198.48	1200.52	1213.58	1221.62
99	ALL-SHARE INDEX (655)	1254.26	-0.5	-	4.72	-	22.64	1260.82	1268.24	1278.43	1211.78

	Index No.	Day's Change	Day's High (a)	Day's Low (b)	Jun 12	Jun 11	Jun 10	Jun 9	Jun 8	Year ago
FT-SE 100 SHARE INDEX‡	2593.6	-10.1	2601.1	2577.8	2603.7	2614.1	2636.1	2635.4	2645.8	2524.0

FIXED INTEREST

	PRICE INDICES	Mon Jun 15	Day's change %	Fri Jun 12	Accrued interest	xd adj. 1992 to date
	British Government					
1	Up to 5 years (24)	122.65	-0.01	123.54	2.04	5.72
2	5-15 years (24)	137.76	-0.23	138.50	1.79	6.89
3	Over 15 years (10)	148.27	-0.31	148.74	1.29	6.06
4	Irredeemables (6)	165.42	+0.01	165.40	1.59	6.35
5	All stocks (64)	135.46	-0.17	136.22	1.84	6.51
	Index-Linked					
6	Up to 5 years (2)	173.80	+0.05	173.71	0.79	1.83
7	Over 5 years (9)	153.29	+0.01	153.28	0.95	2.04
8	All stocks (11)	154.93	+0.02	154.91	0.93	1.99
9	Debs & Loans (63)	120.31	-0.17	120.59	2.18	5.55

	AVERAGE GROSS REDEMPTION YIELDS		Mon Jun 15	Fri Jun 12	Year ago (approx.)
	British Government				
1	Low	5 years	8.13	8.12	9.04
2	Coupons	15 years	8.96	8.94	10.15
3	(0%-7¾%)	20 years	8.96	8.94	10.15
4	Medium	5 years	9.20	9.16	10.48
5	Coupons	15 years	9.10	9.05	10.41
6	(8%-10¾%)	20 years	9.08	9.04	10.33
7	High	5 years	9.41	9.38	10.67
8	Coupons	15 years	9.30	9.25	10.56
9	(11%-)	20 years	9.25	9.21	10.44
10	Irredeemables	†	9.21	9.21	10.32
	Index-Linked				
11	Inflation rate 5%	Up to 5yrs.	3.88	3.90	4.31
12	Inflation rate 5%	Over 5 yrs.	4.32	4.32	4.31
13	Inflation rate 10%	Up to 5 yrs.	3.10	3.23	3.34
14	Inflation rate 10%	Over 5 yrs.	4.13	4.15	4.10
15	Debs &	5 years	10.51	10.49	11.92
16	Loans	15 years	10.37	10.33	11.69
17		25 years	10.26	10.23	11.50

‡Opening index 2588.9; 9 am 2593.9; 10 am 2599.8; 11 am 2595.0; Noon 2587.4; 1 pm 2586.3; 2 pm 2578.9; 2.30 pm 2579.8; 3 pm 2582.3; 4.10 pm 2593.2; (a) 10.17am (b) 2.14pm † Flat yield. Highs and lows record, base dates, values and constituent changes are published in Saturday issues. A list of constituents is available from the Publishers, The Financial Times, Number One, Southwark Bridge, London SE1 9HL. The FT-ACTUARIES SHARE INDICES SERVICE covers a range of electronic and paper-based products relating to these indices. These are available by subscription from FINSTAT, 2nd Floor, 126 Jermyn Street, London SW1Y 4UJ. Tel: 071-925 2323.

NEW HIGHS AND LOWS FOR 1992

[illegible]

LONDON SHARE SERVICE

BRITISH FUNDS

	Notes	Price £	+ or -	1992 high	1992 low	Yield Int.	Yield Red.
"Shorts" (Lives up to Five Years)							
Treas 3pc 1992		100xd	—	100	97⅞	3.00	—
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

BRITISH FUNDS - Cont.

[illegible]

OTHER FIXED INTEREST

[illegible]

AMERICANS

Notes	Price £	+or-	1992 high	low	Mkt Cap£m	Yld Gr's
Abbott Labs h	14[illegible]xc	+[illegible]	19½	14⅝	12,873	2.3
Allegheny & W.	270p	—	335p	224p	149.3	6.3
Amdahl	869p	+12	1159p	815p	970.8	0.6
Amer Cyanamid	30¼	+¼	37	30	2,771	3.1
Amer Express	12[illegible]xd	−¼	15⅞	10[illegible]	6,990	4.5
Amer T & T	23[illegible]xd	+[illegible]	24⅞	20⅝	38,812	3.2
Ameritech	33¾	−⅛	36[illegible]	22½	14,777	5.9
BankAmerica	23⅛xd	+[illegible]	27⅞	19[illegible]	8,146	3.1
Bankers NY	30xd	−⅝	37¼	28⅞	2,472	5.3
Bell Atlantic	23¾	+[illegible]	26¼	23⅛	10,224	6.2
BellSouth	25⅛	—	28⅛	25	12,715	5.9
Bethlehem Steel	8⅝xd	−[illegible]	9⅝	7	858.8	—
Bowater	1186pxd	+26	1579p	1078p	427.4	5.7
CPC h	23[illegible]	+[illegible]	25⅝	22⅛	3,519	2.9
Cadiz Land Inc	200p	—	342p	168p	—	—
California Engy	642p	+5	833p	637p	116.9	—
Campbell Soup	17⅛	−[illegible]	23[illegible]	17[illegible]	4,467	2.5
Chase Manhattan	14[illegible]xd	−[illegible]	16½	9⅛	2,891	4.5
Chrysler	10[illegible]xd	—	11⅛	6⅛	3,197	3.1
Citicorp	10[illegible]xd	+⅛	11	5⅝	3,787	—
Colgate-Palm	27xd	—	29[illegible]	25¼	4,290	2.2
Cont'l Bank	983p	+5	1036p	499p	973.1	3.5
Dana	23[illegible]xd	−⅛	26½	14[illegible]	1,858	3.9
Data General	418p	−7	1004p	413p	115.3	—
Dial	19xd	−[illegible]	24⅛	16⅞	782.8	3.3
Dun & Brad	29½	−⅛	33½	27⅝	5,264	4.4
Eaton	44	+¼	46½	32½	1,499	2.8
Echlin	10¼xd	+[illegible]	11	7⅞	572.4	3.8
FPL	18⅝xd	−[illegible]	20	18½	3,157	7.4
Fluor	22⅛xd	−¼	27	21	1,844	1.0
Ford Motor	25¼	+[illegible]	26½	15	12,249	2.2
Gen Elect	41xd	−[illegible]	46¼	40[illegible]	35,425	2.9
General Host	458p	−7	555p	360p	—	4.4
Gillette	24[illegible]xd	+⅛	29⅞	24[illegible]	5,441	1.6
Hasbro	16	+½	16	12⅞	1,372	0.7
Honeywell	39[illegible]xd	+⅝	43	34⅛	2,736	2.4
Houston Inds	23¼	−¼	25	23	3,017	7.2
IBM	50xd	+[illegible]	54½	46¼	28,559	5.4
Ingersoll-Rand h	16⅛xc	—	19[illegible]	14[illegible]	1,672	2.3
Lockheed	24⅛	−⅛	26⅞	22⅛	1,522	4.9
Lowe's	2250p	−63	2546p	1631p	818.3	1.4
Merrill Lynch	25¼xd	+½	30[illegible]	24⅞	2,593	2.2
Morgan (JP)	29⅞xd	+[illegible]	37½	29[illegible]	5,685	4.1
Morris (Philip)	39[illegible]xd	+[illegible]	45[illegible]	39⅛	36,736	3.0
NYNEX	42½	+⅛	44⅝	39⅝	8,468	6.1

For Pacific Agricultural see Cadiz Land Inc

Notes	Price £	+or-	1992 high	low	Mkt Cap£m	Yld Gr's
Pall	13⅞	+⅛	17[illegible]	10[illegible]	1,217	1.5
Pennzoil	26[illegible]xd	−⅛	38¼	25¼	1,970	6.4
Quaker Oats	28[illegible]xd	+[illegible]	40[illegible]	28[illegible]	2,129	3.4
Rockwell	12[illegible]	−[illegible]	16[illegible]	12[illegible]	2,743	4.2
Rep NY	22[illegible]xd	−[illegible]	26[illegible]	22[illegible]	1,164	2.5
Sears, Roebuck	21¼xd	−[illegible]	28	19[illegible]	7,464	5.2
Southwestern Bell	33¼	−⅛	35⅞	32⅛	9,900	4.9
Sun Co	14[illegible]xd	−½	18⅞	14[illegible]	1,531	7.2
Tenneco	21[illegible]xd	−⅛	25[illegible]	16⅛	2,828	4.3
Texaco	35xd	−[illegible]	35⅝	30[illegible]	9,848	5.1
Time Warner	57⅝xd	−½	62⅛	46⅛	3,348	1.0

CANADIANS

BANKS

BREWERS & DISTILLERS

BUILDING MATERIALS

BUILDING MATERIALS - Cont.

BUSINESS SERVICES

CHEMICALS

CONGLOMERATES

CONTRACTING & CONSTRUCTION

CONTRACTING & CONSTRUCTION - Cont.

ELECTRICALS

ELECTRICITY

ELECTRONICS

ENGINEERING - AEROSPACE

ENGINEERING - GENERAL

ENGINEERING - GENERAL - Cont.

FOOD MANUFACTURING

FOOD RETAILING

HEALTH & HOUSEHOLD

HOTELS & LEISURE

HOTELS & LEISURE - Cont.

INSURANCE BROKERS

INSURANCE COMPOSITE

INSURANCE LIFE

INVESTMENT TRUSTS

Authorised by the Inland Revenue

INVESTMENT TRUSTS - Cont.

INVESTMENT TRUSTS - Cont.

Notes	Price	+ or -	1992 high	low	Yld Gr's	NAV	Dis or Pm(-)
Scot National Inc	94	—	107	83½	12.6	—	—
Cap	24	-1	42	12½	—	38.7	35.4
Stepped Pf ‡	140½	—	141¼	126	5.9	—	—
Zero Div Pf	103	—	106	100½	—	—	—
Warrants	6	—	9	3½	—	—	—
Scot Value	60	—	64	48	3.8	62.2	-1.1
Sec Alliance †	1180	-26	1293	1138	4.0	1337.3	11.8
Second Market	242	—	244	222	0.9	284.8	15.0
Sec Tst Scot	71	-1	75½	63	6.1	73.1	2.2
Select Assets	91	-1	102½	91	1.9	129.4	29.7
Eq Ind Serl	121	+1	123	109	4.7	—	—
Eq Ind Serll	121	+1	123	109	4.7	—	—
Shires	242xd	-1	249	195	10.1	238.1	-2.1
3½pc Cv Ln '03/04	£118½	-2	£118½	995½	9.9	—	—
Slam Select	72	—	91	72	1.9	87.2	17.3
Warrants	18	-1	21	13	—	—	—
Smaller Cos	82	—	85	67	4.1	91.9	10.7
Warrants	18	—	20	10	—	—	—
Sphere Inc N	13½	—	28	13½	30.6	20.8	35.0
Zero Div Pf	78	—	77¾	65¾	—	—	—
Warrants	0¾	—	3½	0¾	—	—	—
Stratton	162	-2	166	147	1.4	183.6	11.8
Summit	55	—	55	38	3.8	109.7	49.9
TR City of Lon M	122¾	-½	127½	97½	6.2	117.0	-4.9
TR Euro Growth s	80	—	80	79	1.7	97.3	17.8
Pig Sub s	46	—	54	46	2.8	—	—
TR Far East Inc M	92	—	96	76	6.4	102.4	10.1
Warrants	19	-1	22	12	—	—	—
TR High Inc	108	—	110	91	7.4	103.0	-4.9
Sub o	30	—	30	28	8.7	—	—
TR Pacific s	91	—	90	71	0.4	97.2	6.4
TR Prop	21¼xd	-½	27	20	9.1	30.8	31.1
TR Smaller	138	-2	132	118½	2.6	152.0	9.2
TR Technology M	31	—	37	25	8.9	93.5	65.8
Stepped Pf	102	—	102	89¾	7.2	—	—
Zero Pf	151½	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

MERCHANT BANKS

Notes	Price	+ or -	1992 high	low	Mkt Cap£m	Yld Gr's
Ansbacher (H)	33	—	34	26	61.8	[illegible]
Barings 8pc Cm 2nd Pf	95xd	-5	100	83½	11.9	[illegible]
9¼pc Non-Cum Pf	115¾xd	-6	122¼	103¼	46.3	[illegible]
Brown Shipley	120	—	204	120	19.1	[illegible]
Close Bros †	250	—	267	247	93.1	[illegible]
Hambros q	238xd	-6½	282	215	448.9	[illegible]
7½pc Cv Pf	113	-1	119	93	169.6	[illegible]
Joseph (L)	330	—	333	318	17.3	[illegible]
Kleinwort Benson	311	-1	324	212	494.3	[illegible]
Rea Bros	35	—	37	28	13.7	[illegible]
Schroders	1336	-5	1365	1043	678.5	[illegible]
N/V	1140	-10	1158	883	149.6	[illegible]
Singer & Fried	45	-1	58	37	56.6	[illegible]
Warburg (SG)	548	-4	606	445	1,141	[illegible]
6pc Cv Pf	182	—	204	150	81.7	[illegible]
Wintrust	228	—	253	213	18.7	[illegible]

METALS & METAL FORMING

Notes	Price	+ or -	1992 high	low	Mkt Cap£m	Yld Gr's
ASW	134	-9	165	113	80.4	[illegible]
Apollo Metals	140	—	147	129	18.6	[illegible]
Ash & Lacy	148	—	158	142	44.3	[illegible]
Barrett (H) ‡	23	-1	45	19	9.98	[illegible]
Billam (J)	128	—	144	84	2.04	[illegible]
Brit Steel	68	-2	86	64	1,368	[illegible]
BICI	28	-1½	35	15	24.2	[illegible]
Castings	177	-2	186	118	37.8	[illegible]
Chamber & Hill	138xd	+6	140	90	9.50	[illegible]
Cohen (A)	375	—	400	350	6.66	[illegible]
Cook (Wm)	284	—	295	250	83.3	[illegible]
Cooper (F)	59	—	63	50	21.0	[illegible]
Cronite ♦	45	—	45	24	7.31	[illegible]

MISCELLANEOUS

INVESTMENT COMPANIES

MEDIA

MOTORS

OIL & GAS

OIL & GAS - Cont.

OTHER FINANCIAL

OTHER INDUSTRIAL MATERIALS

PACKAGING, PAPER & PRINTING

PACKAGING, PAPER & PRINTING - Cont.

PROPERTY

STORES

STORES - Cont.

TELEPHONE NETWORKS

TEXTILES

TRANSPORT

WATER

SOUTH AFRICANS

PLANTATIONS

MINES

MINES - Cont.

Diamond and Platinum

Central African

Finance

Australians

Tins

Miscellaneous

GUIDE TO LONDON SHARE SERVICE

Company classifications are based on those used for the FT-Actuaries Indices and FT-Actuaries World Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid- prices.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Estimated price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation, excluding exceptional profits/losses and unrelieved ACT where applicable. Yields are based on mid-prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current pre-closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- ■ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ), and non-UK stocks which are quoted on SEAQ International
- ● "Tap Stock"
- * Highs and lows marked thus have been adjusted to allow for rights issues for cash
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ♦ Figures or report awaited
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ✠ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Not officially UK listed; dealings permitted under Rule 535(2)
- § Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue.
- ♦ Merger bid or reorganisation in progress
- ¢ Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ¢ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
c Cents.
f Flat yield.
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings.
v Subject to local tax.
z Dividend yield includes a special payment
E Minimum tender price.
F Yield based on prospectus or other official estimates for 1990-91.
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1991.
K Yield based on prospectus or other official estimates for 1992-93
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1991-92.
N Yield based on prospectus or other official estimates for 1992.
P Figures based on prospectus or other official estimates for 1991.
R Forecast annualised yield, p/e based on prospectus or other official estimates.
T Figures assumed.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations:
xd ex dividend;
xc ex scrip issue;
xr ex rights;
xa ex all;
xd ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1200 a year for each security shown, subject to the Editor's discretion

FT MANAGED FUNDS SERVICE

● Current Unit Trust prices are available on FT Cityline. Calls charged at 36p/minute cheap rate and 48p/minute at all other times. To obtain a free Unit Trust Code Booklet ring (071) 925-2128.

AUTHORISED UNIT TRUSTS

	Init Charge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
AIB Unit Trust Managers Limited (1000)F						
51 Belmont Rd, Uxbridge, Middx UB8 1RZ 0895 259783						
AIB Grofund American	5	110.0	111.2	117.1	-0.10	0.00
AIB Grofund Equity	5	178.1	180.3xd	190.8	-0.30	2.57
AIB Grofund Euro	5	133.0	134.9	142.0		0.86
AIB Grofund Gilt	3	73.63	73.63	75.89	-0.09	6.39
AIB Grofund Japan	5	103.3	104.5	110.0	-2.10	0.00
Abbey Unit Tst Mngrs (1000)H						
80 Holdenhurst Rd, Bournemouth 0345 717373						
High Income						
Gilts & Fixed Int	6	118.8	118.8xd	125.9		8.22
High Inc Equity	6	130.5	133.5	142.0	-0.8	5.99
Worldwide Bond	6	213.0	213.0xd	225.7	-0.4	6.30
Capital Growth						
American Growth	6	195.9	195.9	209.5	-0.1	.97
Asian Pacific	6	145.3	148.6	158.0	+0.2	1.20
Assets & Earnings	6	189.9	194.2xd	206.5	-0.8	3.07
Capital Reserve Acc	0	115.9	115.9	115.9		7.74
Capital Reserve Inc	0	85.73	85.73	85.74		7.74
Comdty & Energy	6	65.11	65.11	69.63	-0.25	1.18
1992 Enterprise	6	71.36	71.36	76.32	-0.27	2.70
Euro Capital Acc	6	90.96	90.96	97.28	-0.15	1.07
Euro Capital Inc	6	86.19	86.19	92.18	-0.14	1.08
General	6	175.4	175.4	187.5	-0.8	3.09
Japan	6	72.86	72.86	77.92	-1.26	-
Mastertrust	6	89.52	89.52	95.74	-0.51	2.55
UK Growth Acc	6	178.3	185.9	197.7	-1.1	2.84
UK Growth Dist	6	112.6	117.4	124.8	-0.7	2.84

[illegible]

For Matheson see Cannon UT

For Mayflower Mngmt see Sheppards UT Mngmt

	Init Charge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Mercury Fund Managers Ltd (1000)H						
33 King William St, EC4R 9AS 071-280 2860						
American	5	129.1	129.1xd	137.4	+0.60	0.00
(Accum Units)	5	138.0	138.0xd	146.8	+0.70	0.00
American Opps	5	53.31	53.31	56.87	-0.11	0.00
(Accum Units)	5	54.04	54.04	57.65	-0.18	0.00
British Blue Chip	5	64.34	64.35	68.64	+0.08	3.89
(Accum Units)	5	73.60	73.62	78.52	+0.22	3.89
Cash*	0	101.2	101.2	101.2	+0.30	9.66
(Accum Units)*	0	122.6	122.6	122.6	+0.30	9.66
European Growth	5	163.8	163.8	173.5	+0.10	0.52
(Accum Units)	5	173.9	173.9	184.1		0.52
European Income	5	63.39	63.39	67.21	-0.02	3.49
(Accum Units)	5	78.04	78.04	82.74	-0.02	3.49
General	5	403.3	404.7	431.7	-1.10	2.81
(Accum Units)	5	749.5	752.2	802.4	-2.00	2.81
Global Bond	5	104.6	104.6	109.9		6.72
(Accum Units)	5	111.5	111.5	117.1		6.72

	Init Charge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Norwich Union Tst Managers (1200)H						
PO Box 124, 51/59 Rose Lane, Norwich 0603 682234						
Master Trust	6	88.57	88.57	94.21	-0.55	3.53
UK Equity†	6	110.72	112.33	119.50	-0.89	4.13
UK Equity Income	6	106.31	108.18xd	115.09	-1.22	5.45
UK Smaller Co's	6	101.96	105.23	111.95	-1.05	2.56
UK Equity Growth	6	105.60	107.23	114.07	-1.11	4.44
UK Index Tracking ♦ F	6	110.60	111.31	118.41	-0.68	4.41
Intl Index Tracking F	6	92.79	93.61	99.58	-0.60	1.90
International	6	153.01	154.71	164.58	-0.84	2.03
European	6	123.61	124.59	132.54	-0.32	1.16
Pan European	6	94.78	95.81xd	101.93	-0.41	3.12
Nth American	6	116.31	117.53xd	125.03	+0.06	2.25
Nth Amer Smllr Cos	6	101.77	103.79	110.42	-0.16	0.00
Japanese	6	54.36	55.18xd	58.70	-0.89	0.00
Pacific	6	125.35	127.28xd	135.40	-0.48	1.12
South East Asian	6	127.46	129.80	138.09	+0.19	1.04
International Bond	6	102.86	103.00	109.57	-0.01	6.44
Gilt & Convertible	6	100.63	100.81	107.25	-0.19	8.02
Property F	6	69.33	71.31xd	75.86	-0.11	8.24
Cash Deposit Accum F	0	101.17	101.17	101.17	+0.05	9.05

[illegible]

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro §§

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The maximum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often set above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

TIME: The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: (♥) - 0001 to 1100 hours; (♣) - 1101 to 1400 hours; (♦) - 1401 to 1700 hours; (♠) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point; a short period of time may elapse before prices become available.

HISTORIC PRICING: The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

FORWARD PRICING: The letter F denotes that the managers deal at the price to be set on the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

SCHEME PARTICULARS AND REPORTS: The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the *FT Managed Funds Service*

§§ Life Assurance and Unit Trust Regulatory Organisation.
Centre Point,
103 New Oxford Street, London WC1A 1QH
Tel: 071 - 379 - 0444.

[illegible]

FT MANAGED FUNDS SERVICE

● Current Unit Trust prices are available on FT Cityline. Calls charged at 36p/minute cheap rate and 48p/minute at all other times. To obtain a free Unit Trust Code Booklet ring (071) 925-2128.

Stewart Ivory Unit Tst Mgrs Ltd (1200)H

Local Authorities Mutual Invest. Tst.*

M & G Securities Ltd

Allied Dunbar Assurance Plc—Contd.

Century Life Plc—Contd.

Equitable Life Assurance Society

Henderson Administration(z)

Life Association of Scotland

NEL Britannia Assce Co Ltd—Contd.

INSURANCES

OTHER UK UNIT TRUSTS

Continued on next page

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	Bid Price	Offer Price	+ or −	Yield Gross
Pearl Assurance (Unit Funds) Ltd				
Lynch Wood Peterborough PE2 6FY 0733 470470				
Property Dist. (Gross)	135 1	142 2	(z)	–
Property Acc (Gross)	257 5	271 1	(z)	–
Equity (Gross)	900 3	947 7	(z)	–
Managed (Gross)	626 4	659 4	(z)	–
Property Acc (Net)	123 1	129 6	(z)	–
Equity (Net)	208 5	219 4	(z)	–
Adventurous Managed	95 0	100 0	...	–
Managed (Net)	192 3	202 4	(z)	–
Cautious Managed	95 8	100 9	...	–
International (Net)	164 1	172 7	...	–
Gilt & Fixed Interest	140 0	147 4	(z)	–
Money Fund	139 4	146 7	(z)	–
Mixed Fund (Cap)	120 4	126 8	−1 9	–
Mixed Fund (Acc)	124 8	131 4	−1 5	–
Pearl Assurance (Unit Linked Pens) Ltd				
Ret Man (Series 1)	679 0	714 8	(z)	–
Ret Man (Series 2)	230 2	242 4	(z)	–
Ret Cash	196 2	206 6	(z)	–
Pers Mixed Fd (Cap)	133 7	140 8	−2 8	–
Pers Mixed Fd (Acc)	138 7	146 0	−2 5	–
Pers Stig Fd (Cap)	103 3	108 8	−0 3	–
Pers Stig Fd (Acc)	107 1	112 8	+0 1	–
Pegasus Assurance Ltd				
Broad Quay Bristol BS1 4DJ 0272 230271				
Life Funds				
Managed Aggressive	103 7	109 2	−0 2	–
Managed Balanced	100 5	105 8	−0 4	–
Managed Cautious	112 4	118 4	−0 2	–
Pension Funds				
Managed Aggressive	108 6	114 3	−0 2	–
Managed Balance	105 4	111 0	−0 4	–
Managed Cautious	116 4	122 5	−0 4	–

For Pioneer Mutual see Swiss Pioneer

	Bid Price	Offer Price	+ or −	Yield Gross
Provident Mutual Life Assc. Assn.—Contd.				
Index Linked Gilt Init	128 2	134 9	−0 5	–
Overseas Equity Ord	266 1	280 1	−0 6	–
Overseas Equity Init	194 4	204 6	−0 6	–
Property Ord	221 9	233 6	+0 1	–
Property Init	162 1	170 6	...	–
Fixed Interest Ord	228 0	240 0	+0 1	–
Fixed Interest Init	166 6	175 4	...	–
Deposit Ord	186 6	196 4	+0 1	–
Deposit Init	136 3	143 5	...	–

OFFSHORE AND OVERSEAS

OFFSHORE INSURANCES

MANAGEMENT SERVICES

BERMUDA (SIB RECOGNISED)

CANADA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

FT MANAGED FUNDS SERVICE

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	Init Charge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Allied Dunbar Intl Fund Mgrs – Contd.						
ADI Nth Amer Gth(z)	5	90.8	[illegible]	0.852	[illegible]	0.01
ADI Far East (z)	5	[illegible]	1.148	1.222	[illegible]	0.65
ADI Gilt & Income(z)	5	[illegible]	0.2605	0.2746	[illegible]	8.16
ADI UK Cap Gth (z)	5	[illegible]	0.2575	0.2529	[illegible]	3.4
ADI Europe Fd (z)	5	[illegible]	1.184	1.258	[illegible]	1.65
For conversion Prices of Shares Phone: 0624 662860						
Asset Global Funds Ltd (1200)						
Victory Hse, Prospect Hill, Douglas, IoM 0624 620097						
European Equity	5	13.80	13.80	14.82	-0.21	–
UK Gilt	5	[illegible]	10.498	11.00	+0.02	–
Intl Equity	5	14.30	14.30	15.34	-0.16	–
International Bond	5	[illegible]	5.1127	5.394	[illegible]	–
Ashburton Managed	5	[illegible]	0.9910	1.0453	[illegible]	–
European Bond	5	[illegible]	1.0279	1.0834	[illegible]	–
Sterling Cash Inc	5	[illegible]	0.9891	1.0386	[illegible]	–
CMI Fund Managers (IoM)						
Clerical Medical Hse, Douglas, IoM 0624 625599						
High Income	5	[illegible]	0.4917	0.5176	[illegible]	10.25
CMI Core Portfolio Fund						
UK	5		£– 1.0130	1.0877	[illegible]	–
USA	5		£– 1.0040	1.0658	[illegible]	–
Japan	5		£– 0.4453	0.4700	[illegible]	–
Equity & Law Intl Fund Mngrs Ltd						
Victory Hse, Prospect Hill, Douglas IoM 0624 677877						
Total Income Fd	5	95.15	95.15	100.14	+0.05	10.0
Gartmore Fund Managers (IoM)						
PO Box 32, Douglas, IoM 0624 627610						
Intl Grth	5¼	471.6	471.6	505.7	-8.81	0.9
Leopold Joseph Fund Mngrs (IoM) Ltd						

	Init Charge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Cater Allen Investment Management (CI)						
CA Gilt Income		£6.39	6.68		.....	17.96
CA Gilt & Futures		£1.046	1.099		.....	7.28
CA Equity Grth		£4.13	4.51		.....	3.10
Citibank (CI) Ltd "Citifunds"						
Short term Investment Funds						
Irish £ Jun 11			118.570		.....	–
Equity Funds						
Japan Equity Jun 11			$7.532		.....	–
US Em High Jun 15			$21.893		.....	–
US Em Tech Jun 15			$18.025		.....	–
Citicare Jun 15			$33.594		.....	–
Bond Funds						
GNMA Bond Jun 15		$14.934	14.940		.....	–
HYB (A) Jun 15			$92,554.158		.....	–
EBC Trust Company (Jersey) Ltd						
EBC Amro Traded Currency Fund Ltd*						
Income		$15.30	15.779		+0.020	2.72
Capital		$23.80	24.544		+0.020	5.30
*Offer price includes 3% prelim. charge						
International Income Fund						
Eurobd.Long Term*		$33.86	35.3970		.....	4.77
* Offer Price Includes 3½ % Initial Charge						
Equitilink International Mngt Ltd						
First Aust. Prime Inc Inv Co Ltd NAV June 11 C$13.18xd						
First Aust Prime Inc Inv Co Ltd NAV June 11 US$11.05xd						
NAV Diluted to reflect exercise of all Wrrts C$12.82xd US$10.75xd						
Fidelity Investment (CI) Ltd						

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

LUXEMBOURG (SIB RECOGNISED)

JERSEY (REGULATED)(**)

LUXEMBOURG (REGULATED)(**)

SWITZERLAND (SIB RECOGNISED)

OTHER OFFSHORE FUNDS

MANAGED FUNDS NOTES

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Vote fears keep D-Mark strong

THE D-MARK held on to most of its recent gains against other European currencies on the foreign exchange markets yesterday, supported by fears over European Union, *writes James Blitz.*

With two days to go to Ireland's referendum on European political and economic union, the markets remain slightly jittery about the possibility that European union is on the rocks. Although the opinion polls show that the Irish people will vote "Yes" to the Maastricht Treaty on Thursday, the markets are still putting their faith in the D-Mark, which they perceive to be the strongest currency in the European Monetary System (EMS).

The German currency made new headway against sterling, partly helped by an upward revision of Britain's first-quarter current account deficit *to £2.64bn from an estimated* £2.17bn. The pound closed ¼ pfennig down at DM2.9175.

Sterling will be tested further in a big week of UK indicators: May's retail sales figures are due out tomorrow and May's unemployment number is scheduled for Thursday.

The French franc and Spanish peseta improved only slightly against the D-Mark to FFr3.367 and Pta62.85 from previous closes of FFr3.370 and Pta62.88 respectively.

The Italian lira would have lost ground to the D-Mark had it not been for yet more intervention by the Bank of Italy. The Bank sold 4m ecu at the midday currency fixing as the lira was set at a fresh 1992 low against the D-Mark of L757.19. At least one London bank reported that the Bank of Italy had intervened in the market to prop up its currency at around L757. The lira finished *at L756.7 to the D-Mark from a* previous close of L757.2.

Conversely, the German cur*rency lost much ground to the* one other currency in Europe that is seen as a safe haven in *times of European trouble:* the Swiss franc. The D-Mark ended at a four-month low against the "Swissie", although traders were divided over exactly why.

The Swiss currency may have been boosted by a small rise in short-term interest rates in the Swiss franc market or by a general feeling that it was undervalued. It ended the day up at SFr0.90 to the D-Mark from a previous close of SFr0.9040.

The dollar was mostly sidelined, with no important indicators out of the US. It moved mainly in a narrow range between DM1.5700 and DM1.5664, and at its weak point touched a four-month low against the D-Mark in European trading. It ended more than ½ pfennig down from Friday's close, at DM1.5715. In *New York yesterday the dollar* finished at DM1.5708.

The US currency will be *tested by today's figures for* May US housing starts, which weakened sharply last month.

£ IN NEW YORK

June 15	Close	Previous Close
£ Spot	1.8563-1.8573	1.8510-1.8520
1 month	0.95-0.93pm	0.93-0.91pm
3 months	2.75-2.72pm	2.72-2.69pm
12 months	9.25-9.20pm	9.10-9.00pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

	June 15	Previous
8.30 am	92.8	92.7
9.00 am	92.9	92.7
10.00 am	92.8	92.8
11.00 am	92.8	92.8
Noon	92.8	92.8
1.00 pm	92.8	92.8
2.00 pm	92.8	92.8
3.00 pm	92.8	92.8
4.00 pm	92.9	92.8

CURRENCY MOVEMENTS

CURRENCY RATES

OTHER CURRENCIES

*Floating rate. Iran Official rate:£119.70 $65.10

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu Central Rates	Currency Amounts Against Ecu Jun 15	% Change from Central Rate	% Spread vs Weakest Currency	Divergence Indicator
Portuguese Escudo	178.735	170.123	−4.82	6.04	79
Spanish Peseta	133.631	129.233	−3.29	4.57	56
Belgian Franc	42.4032	42.1914	−0.50	1.44	26
Dutch Guilder	2.31643	2.30935	−0.31	1.24	16
D-Mark	2.05586	2.04994	−0.29	1.23	20
Irish Punt	0.767417	0.767055	−0.05	0.98	3
French Franc	6.89509	6.90382	0.12	0.81	−5
Danish Krone	7.84195	7.90041	0.75	0.19	−33
Sterling	0.696904	0.703334	0.92	0.01	−20
Italian Lira	1538.24	1552.60	0.93	0.00	−45

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate.
Adjustment calculated by Financial Times.

POUND SPOT - FORWARD AGAINST THE POUND

Jun 15	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.8505 - 1.8590	1.8560 - 1.8570	0.93-0.91cpm	5.95	2.75-2.72pm	5.89
Canada	2.2100 - 2.2145	2.2135 - 2.2145	0.76-0.69cpm	3.93	2.31-2.21pm	4.08
Netherlands	3.2805 - 3.2925	3.2825 - 3.2925	¼-par cpm	0.23	¼-par pm	0.15
Belgium	59.85 - 60.10	59.85 - 59.95	4-1cpm	0.50	6-1pm	0.23
Denmark	11.2030 - 11.2535	11.2125 - 11.2225	¾-1¼oredis	−1.07	1¾-2½dis	−0.65
Ireland	1.0895 - 1.0920	1.0910 - 1.0920	0.02-0.01cpm	0.16	0.08-0.01pm	0.16

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

EURO-CURRENCY INTEREST RATES

EXCHANGE CROSS RATES

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100: Peseta per 100.

FINANCIAL FUTURES AND OPTIONS

OPTION ON LONG-TERM FRENCH BOND (MATIF)

Strike	Calls September	Calls December	Calls March	Puts September	Puts December	Puts March
106	1.59	-	-	0.32	0.59	-
107	0.92	1.41	-	0.63	0.93	-
108	0.45	0.93	-	1.19	1.42	-
109	0.19	-	-	-	-	-
110	0.07	0.32	-	-	-	-
111	0.03	0.16	-	-	-	-
Open Int.	72,810	27,116	200	69,069	27,882	200

Estimated volume 33,710 Total Open Interest 197,277

BASE LENDING RATES

	%		%		%
Adam & Company	10	Credit Lyonnais	10	McDonnell Douglas Bnk	10
Allied Trust Bank	10	Cyprus Popular Bk	10	Midland Bank	10
AIB Bank	10	Duncan Lawrie	10	Mount Banking	10
● Henry Ansbacher	10	Equatorial Bank plc	10	NatWestminster	10
B & C Merchant Bank	10.5	Exeter Bank Limited	10.5	Northern Bank Ltd	10
Bank of Baroda	10	Financial & Gen. Bank	10	Nykredit Mortgage Bank	10.5
Banco Bilbao Vizcaya	10	● Robert Fleming & Co.	10	Provincial Bank PLC	14
Bank of Cyprus	10	Robert Fraser & Ptnrs.	10.5	● Rea Brothers	10
Bank of Ireland	10	Girobank	10	Roxburghe Bank Ltd.	11
Bank of India	10	● Guinness Mahon	10	Royal Bk of Scotland	10
Bank of Scotland	10	Habib Bank A.G. Zurich	10	● Smith & Williamson Secs.	10
Banque Belge Ltd	10	● Hambros Bank	10	Standard Chartered	10
Barclays Bank	10	Hampshire Trust Plc	13.5	TSB	10
Benchmark Bank	11	Heritable & Gen Inv Bnk.	10	Unibank plc	10
Brit Bk of Mid East	10	● Hill Samuel	10	● United Bk of Kuwait	10
● Brown Shipley	10	C. Hoare & Co.	10	Unity Trust Bank Plc	10
CL Bank Nederland	10	Hongkong & Shanghai	10	Western Trust	10
Citibank NA	10	Julian Hodge Bank	10	Whiteaway Laidlaw	10
City Merchants Bank	10	● Leopold Joseph & Sons	10	Yorkshire Bank	10
Clydesdale Bank	10	Lloyds Bank	10		
Co-operative Bank	10	Meghraj Bank Ltd	10		
Coutts & Co	10				

● Members of British Merchant Banking & Securities Houses Association.

MONEY MARKETS

Cash expensive

SHORT RATES in the sterling cash market were firmer yesterday as dealers took the whole day to remove the large shortage forecast by the Bank of England.

As expected, the Bank forecast a shortage of £1bn at the start of what is expected to be an expensive week for money. Many of the Bank's previous repurchase agreements are due to expire this week. The shortage in forthcoming days could *add up to around £7bn.*

To help remove yesterday's shortage, the Bank invited the *discount houses to tender bills* in the early round. They also offered to purchase bills in the longer dated Bands 3 and 4 at 9$\frac{23}{32}$ per cent and 9$\frac{11}{16}$ per cent respectively.

UK clearing bank base lending rate 10 per cent from May 5, 1992

At first, dealers waited to see whether the Bank would offer to buy these bills at slightly *lower rates:* only £16m of Band-3 bank bills and £29m of Band-4 bills were purchased. *On top of this, £33m of Band-1* bank bills and £74m of Band-2 bank bills were purchased at the *now* established rate of 9¾ per cent.

As midday approached, dealers realised that the Bank would stick to these dealing rates throughout the day. At the established rates, the Bank purchased £70m of Band-1 treasury bills, £72m of Band-1 bank bills, £20m of Band-2 bank bills, £237m of Band-3 bank bills, £1m of Band-4 LA bills, and £161m of Band-4 bank bills. In the afternoon, the shortage was revised to around £800m. The Bank bought £37m of Band-1 bank bills and £13m of Band-2 bank bills. The Bank also provided late assistance of around £70m.

The Bank was clearly not trying to signal a change in base rate policy by dealing in *longer-dated bills at these* softer rates. Indeed, 3-month sterling libor closed around 10 per cent. But one discount house dealer said the Bank made life much easier by trading in Bands 3 and 4, which are long dated, rather than alleviating the shortages with repurchase agreements that would be expected to mature within a month. This way, the Bank pushes the next cycle of shortages further out.

Period rates reflected the tone of trading. The overnight *ended up at 10¼ per cent from* 7½ per cent on Friday night. The one-week rate finished at 10$\frac{1}{16}$ per cent from 9¾ per cent, and the one-month rate at 10$\frac{1}{16}$ per cent from 9$\frac{15}{16}$ per cent.

FT LONDON INTERBANK FIXING

MONEY RATES

LONDON MONEY RATES

MONEY MARKET FUNDS

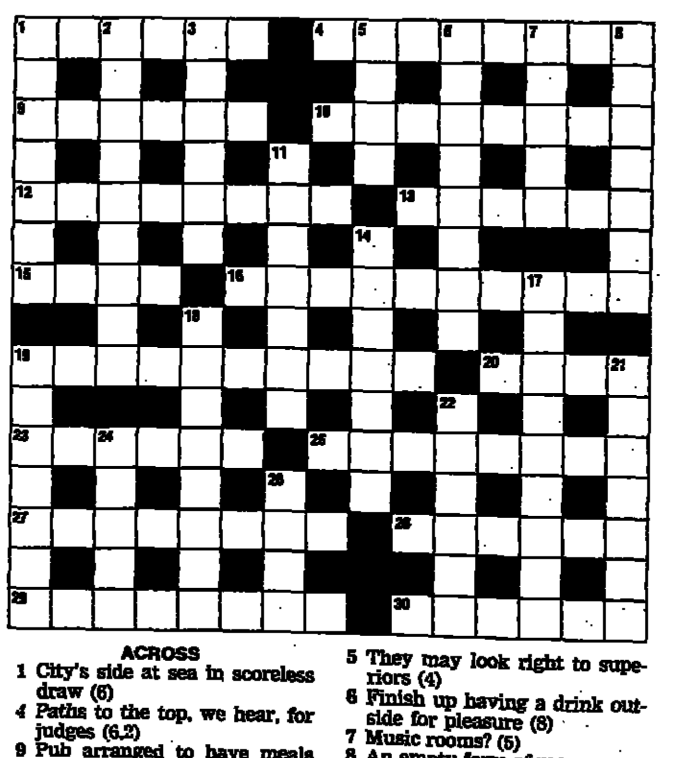
Money Market Trust Funds

Money Market Bank Accounts

JOTTER PAD

CROSSWORD

No.7,874 Set by DANTE



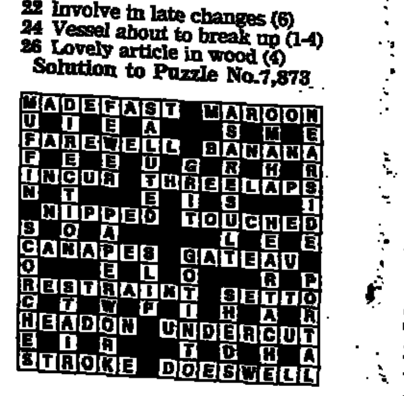
ACROSS

1 City's side at sea in scoreless draw (6)
4 *Paths* to the top, we hear, for judges (6,2)
9 Pub arranged to have meals in every bar (6)
10 It can yet conceal firmness of purpose (8)
12 Perhaps Ned does right to get confirmed (8)
13 We hear a letter gets an extension (6)
15 Returned issue of *US* magazine (4)
16 Turnover from two seasons, say (10)
19 *Chap* works for military advantage (10)
20 Keen sort of house party (4)
23 Shylock is certain to be found in the old city (6)
25 Transform rear of plane to fly (4,4)
27 *Cop involved with* trial gets heated (8)
28 A beating to leave marks on the skin (6)
29 They cast items of pottery (8)
30 Slips things under the microscope (6)

DOWN

1 By endless work advanced to become *rich* (7)
2 Official beef consultant (9)
3 Eat out on a badly run vessel (3-3)
5 They may look right to superiors (4)
6 Finish up having a drink outside for pleasure (8)
7 Music rooms? (5)
8 An empty form of recompense (7)
11 Lovers get involved with a point to settle (7)
14 Regret being *about to level* out income (7)
17 Like some remote regions and unsuccessful pop songs? (9)
18 *Swimmer* circling, always restless (8)
19 Rise to show appreciation (5,2)
21 Work girls came out in lumps (7)
22 Involve in late changes (6)
24 Vessel about to break up (1-4)
26 Lovely article in wood (4)

Solution to Puzzle No.7,873



WORLD STOCK MARKETS

INDICES

NEW YORK

DOW JONES	Jun 15	Jun 12	Jun 11	Jun 10	1992 HIGH	1992 LOW	Since compilation HIGH	Since compilation LOW
♦Industrials	3354.90	3354.36	3351.51	3343.22	3413.21 (1/6)	3172.41 (2/1)	3413.21 (1/6/92)	41.22 (2/7/32)
Home Bonds	99.94	99.89	99.61	99.74	100.17 (19/5)	98.41 (20/3)	100.17 (19/5/92)	54.99 (1/10/81)
Transport	1343.80	1346.23	1331.84	1335.01	1467.68 (20/2)	1301.57 (8/4)	1532.01 (5/9/89)	12.32 (8/7/32)
Utilities	215.32	214.07	213.82	213.45	225.59 (3/1)	200.74 (8/4)	236.23 (2/1/90)	10.50 (8/4/32)

♦Day's High 3371.75 (3397.65) Low 3327.08 (3339.59)

STANDARD AND POOR'S	Jun 15	Jun 12	Jun 11	Jun 10	1992 HIGH	1992 LOW	Since compilation HIGH	Since compilation LOW
Composite ‡	410.29	409.76	409.05	407.25	420.77 (15/1)	394.50 (8/4)	420.77 (15/1/92)	4.40 (1/6/32)
Industrials	484.19	483.85	483.13	480.96	499.27 (15/1)	470.91 (8/4)	499.27 (15/1/92)	3.62 (21/6/32)
Financial	35.08	34.97	34.81	34.70	35.80 (13/5)	32.40 (8/4)	35.80 (13/5/92)	8.64 (1/10/74)
NYSE Composite	225.62	225.51	225.10	224.36	231.85 (15/1)	217.92 (8/4)	231.85 (15/1/92)	4.46 (25/4/42)
Amex Mkt. Value	388.78	391.32	389.90	390.13	418.99 (12/2)	380.90 (8/4)	418.99 (12/2/92)	29.31 (9/12/72)
NASDAQ Composite	569.01	569.52	567.68	569.71	644.92 (12/2)	560.33 (28/4)	644.92 (12/2/92)	54.87 (31/10/72)

	Jun 12	Jun 5	May 29	year ago (approx.)
Dow Industrial Div. Yield	3.03	2.99	2.99	3.03

	Jun 10	Jun 3	May 27	year ago (approx.)
S & P Industrial div. yield	2.69	2.63	2.65	2.74
S & P Indl. P/E ratio	28.44	28.96	28.77	19.24

NEW YORK ACTIVE STOCKS

Monday	Stocks traded	Closing price	Change on day
Telefonos	3,701,400	50	- 1⅜
Monsanto	2,484,800	54	- 5
Philip Morris	2,156,900	72¾	- 1½
Abbott Labs	2,032,200	27½	- ¼
Bristol Myers	1,913,100	64	+ ¼
Toys R Us	1,888,700	34⅝	+ ⅝
IBM	1,872,400	94¼	+ 1⅛
Coca Cola	1,747,400	42	- ¼
Genentech	1,578,800	30½	+ 2¼
Unisys	1,418,300	8½	- ⅛

TRADING ACTIVITY

† Volume (Millions)	Jun 15	Jun 12	Jun 11
New York SE	159.060	182.684	192.940
Amex	10.406	11.561	11.772
NASDAQ	(u)	149.514	160.149
NYSE			
Issues Traded	2,244	2,259	2,260
Rises	746	1,021	780
Falls	913	666	854
Unchanged	585	572	626
New Highs	32	36	25
New Lows	42	22	45

CANADA

TORONTO	Jun 15	Jun 12	Jun 11	Jun 10	1992 HIGH	1992 LOW
Metals & Minerals	3174.53	3196.97	3182.40	3170.99	3238.87 (16/1)	2828.26 (8/4)
Composite	3409.77	3408.00	3385.40	3368.60	3666.00 (16/1)	3318.10 (8/4)
MONTREAL Portfolio	1799.90	1796.92	1787.38	1770.09	1937.59 (16/1)	1727.04 (8/4)

Base values of all indices are 100 except NYSE All Common – 50; Standard and Poor's – 10; and Toronto Composite and Metals – 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable.

	Jun 15	Jun 12	Jun 11	Jun 10	1992 HIGH	1992 LOW
AUSTRALIA						
All Ordinaries (1/1/80)	1647.1	1651.3	1658.1	1665.8	1684.50 (22/5)	1545.30 (9/4)
All Mining (1/1/80)	710.1	707.9	708.9	709.6	717.20 (25/2)	660.30 (2/1)
AUSTRIA						
Credit Aktien (30/12/84)	411.99	412.54	413.74	414.75	458.57 (24/2)	372.24 (2/1)
Traded Index (2/1/91)	992.51	993.44	995.70	998.06	1099.43 (24/2)	901.64 (2/1)
BELGIUM						
BEL20 (1/1/91)	1205.18	1211.28	1209.58	1219.78	1235.40 (2/6)	1097.23 (8/1)
DENMARK						
Copenhagen SE (3/1/83)	325.42	326.10	325.29	327.89	365.29 (15/1)	325.29 (11/6)
FINLAND						
HEX General (28/12/90)	791.3	781.6	785.5	783.7	935.90 (24/2)	778.30 (9/4)
FRANCE						
CAC General (31/12/82)	527.15	530.50	532.41	536.92	555.93 (12/5)	475.53 (2/1)
CAC 40 (31/12/87)	1918.14	1928.29	1928.84	1953.73	2077.49 (11/5)	1749.91 (2/1)
GERMANY						
FAZ Aktien (31/12/58)	708.23	710.20	718.99	711.83	725.26 (26/5)	643.26 (8/1)
Commerzbank (1/12/53)	1997.10	2002.6	2003.7	2005.6	2043.80 (25/5)	1813.80 (8/1)
DAX (30/12/87)	1773.90	1782.27	1781.81	1789.76	1811.57 (25/5)	1578.73 (8/1)
HONG KONG						
Hang Seng Bank (31/7/64)	(c)	5819.07	5826.54	5917.50	6082.70 (27/5)	4301.78 (2/1)
IRELAND						
ISEQ Overall (4/1/88)	1357.26	1356.52	1353.42	1360.39	1469.57 (17/1)	1346.61 (3/4)
ITALY						
Banca Com. Ital. (1972)	472.85	474.94	477.37	481.07	551.59 (6/2)	472.72 (15/5)
MIB General (2/1/92)	934.0	938.0	941.0	949.0	1086.00 (5/2)	932.00 (15/5)
JAPAN						
Nikkei (16/5/49)	16953.23	17383.68	17709.65	17742.87	23801.18 (6/1)	16598.15 (9/4)
Tokyo SE (Topix) (4/1/68)	1305.47	1328.36	1345.54	1347.24	1763.43 (6/1)	1196.19 (9/4)
2nd Section (4/1/68)	1977.15	1991.18	1995.17	1997.10	2459.85 (6/1)	1910.56 (9/4)
MALAYSIA						
KLSE Composite (4/4/86)	600.17	590.55	(c)	589.52	619.06 (20/2)	546.63 (14/1)
NETHERLANDS						
CBS Tot.Rtn.Gen.(End 1983)	312.0	313.9†	312.6	314.6	314.90 (9/6)	274.00 (8/1)
CBS All Shr (End 1983)	213.2	214.6†	213.9	215.3	215.50 (26/5)	192.40 (8/1)
NORWAY						
Oslo SE (Ind) (2/1/83)	735.80	743.74	744.84	747.7	772.74 (18/5)	667.88 (25/2)
PHILIPPINES						
Manila Comp (2/1/85)	1575.56	(c)	1580.95	1573.34	1580.95 (11/6)	1083.01 (17/3)
SINGAPORE						
SES All-Singapore (2/4/75)	409.33	408.00	(c)	407.05	416.99 (21/1)	370.13 (9/4)
SOUTH AFRICA						
JSE Gold (28/9/78)	1147.0§	1113.0	1076.0	1079.0	1327.00 (21/1)	1006.00 (24/4)
JSE Industrial (28/9/78)	4522.0§	4590.0	4611.0	4653.0	4689.00 (4/6)	4169.00 (2/1)
SOUTH KOREA**						
Korea Comp Ex. (4/1/80)	579.81	566.20	570.50	562.87	691.48 (8/2)	561.76 (9/6)
SPAIN						
Madrid SE (30/12/85)	246.88	248.41	249.27	251.34	266.51 (28/2)	238.93 (2/1)
SWEDEN						
Affarsvärlden Gen. (1/2/37)	948.10	943.5	953.5	959.8	1014.50 (11/5)	913.70 (2/1)
SWITZERLAND						
Swiss Bank Ind. (31/12/58)	860.8	866.7	861.6	869.8	883.40 (11/5)	748.50 (8/1)
SBC General (1/4/87)	654.1	659.4	655.9	664.2	682.30 (11/5)	601.10 (8/1)
TAIWAN**						
Weighted Price (30/6/66)	4672.49	4683.07	4597.19	4633.80	5391.63 (30/1)	4268.17 (11/5)
THAILAND						
Bangok SET (30/4/75)	743.37	740.69	737.23	687.38	832.39 (7/4)	667.84 (19/5)
WORLD						
M.S. Capital Intl.(1/1/70) ($)	500.1*	503.6	503.4	502.9	542.10 (7/1)	467.50 (8/4)
Euro Top-100 (26/6/90)	938.9	941.10	942.10	950.66	976.55 (25/5)	870.31 (2/1)

**Saturday June 13: Taiwan Weighted Price: 4676.13, Korea Comp Ex. 580.80.
§ Subject to official recalculation. *Calculated at 15.00 GMT.
Base values of all indices are 100 except: Austria Traded, BEL20, HEX Gen., MIB Gen., Euro Top-100, ISEQ Overall and DAX – 1,000, JSE Gold – 255.7, JSE 26 Industrials – 264.3 and Australia All Ordinary and Mining – 500; (c) Closed. (u) Unavailable. † Correction.

TOKYO – Most Active Stocks

Monday 15th June 1992

	Stocks Traded	Closing Prices	Change on day
Meiji Milk Prod	5.1m	971	-22
Morinaga Milk	3.4m	874	-16
NPN Steel Corp	2.8m	283	-7
NPN Formula	2.3m	881	-14
Nippon Express	2.1m	705	-31
Mochida Pharm	2.0m	3,820	-20
Daiichi Seiyaku	1.8m	1,820	+10
Toyota Motor Co	1.8m	1,460	-30
Mitsubishi Hvy	1.7m	569	-9
Chugai Pharm	1.6m	1,190	-40

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

4:00 pm prices June 15

1992 High	1992 Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
15⅞	12	AAR Corp	0.48	4.0	14	1495	12⅛	d12	12	-⅛
26	20⅝	A L Labs A x	0.16	0.8	84	429	21⅜	21	21⅛	+⅛
66¼	56	AMP Inc	1.52	2.6	24	1980	59¼	58½	59	+½
80¼	60⅞	AMR				1981997	63¼	63⅛	63¼	-½
2⅜	1⅞	ARX				2z100	1¾	1¾	1¾	
53½	40¾	ASA	2.00	4.4	13	800	45⅜	44⅞	44⅞	-⅛
34¼	26⅛	Abbott Lab	0.60	2.2	20	1635	28	27½	27½	-¼
13⅞	12	Abitibi Pr	0.42	3.1	9	10	13½	13½	13½	
11⅝	10⅛	ACM Gvt In x	0.96	8.7		184	11⅛	11	11	-⅛
10½	9⅛	ACM GvOpp x	0.80	8.3		56	9¾	9⅝	9⅝	-⅛
9½	8½	ACM Gvt Sc x	0.80	8.8		304	9⅛	9	9⅛	
11¼	10⅛	ACM Gvt Se	0.96	8.8		461	10⅞	10¾	10⅞	+⅛
9⅝	8⅝	ACM Man x	0.95	10.1		166	9½	9⅜	9⅜	-⅛
12⅞	10⅝	ACM ManagI x	1.08	9.3		33	11⅝	11½	11⅝	
11¾	6¼	Acme Cleve	0.40	5.4	25	248	7½	7⅜	7⅜	
6¼	4½	Acme Elect			4	7	4¾	4¾	4¾	
33¼	18⅞	Acuson			13	291	21¾	21⅜	21⅜	-¼
19½	18⅛	Adams Expr	0.48	2.6	0	109	18⅞	18⅝	18⅞	+⅛
49⅛	38¾	Ad Micro	3.00	7.7		26	39⅛	d38¾	39⅛	+⅛
21½	14½	Ad Micro P	3.00	19.8		69472	15¼	d14½	15⅛	+¼
9⅛	5	Advest Grp	0.16	2.5	63	109	6½	6	6⅜	+¼
71¼	56	Aegon ADR	3.39	4.9	6	2	70	69¾	69¾	
47	39⅛	Aetna Lf	2.76	6.8	71	300	41⅛	40½	40⅞	+⅜
12	8⅞	Affil A	0.24	2.2	12	202	10⅞	10⅝	10¾	-¼
32⅞	24	Aflac	0.44	1.5	14	1002	29⅛	28⅞	28⅞	-¼
19⅝	15⅛	Ahmanson	0.88	5.2	7	710	17	16⅝	17	+¼
22½	6¼	Aileen Inc			6	140	7	d6⅝	6⅝	-⅜
49½	36½	Air Pr Chm	0.80	1.8	19	1817	45¾	45⅛	45½	-⅛
29¼	14	Airbne Frt	0.30	2.0	12	1175	15	14⅝	15	+⅛
32½	22⅝	Airgas Inc			30	597	u33¼	31¼	33¼	+1½
12⅛	8⅛	Airlease	1.65	14.9	7	104	11½	11⅛	11⅛	-¼
104	99½	AlaPw8.16	8.16	8.1		z100	101½	100½	100½	
25⅛	21⅞	AlaPw PfA	2.00	8.0		11	u25⅛	25⅛	25⅛	
107	102½	AlaPw9.44	9.44	9.0		z100	102½	d102½	105	+2½
108	102⅝	Alab Pw 11				2	104	104	104	
106½	101½	Alab Pw 9P	9.00	8.7		z100	103	103	103	-½
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

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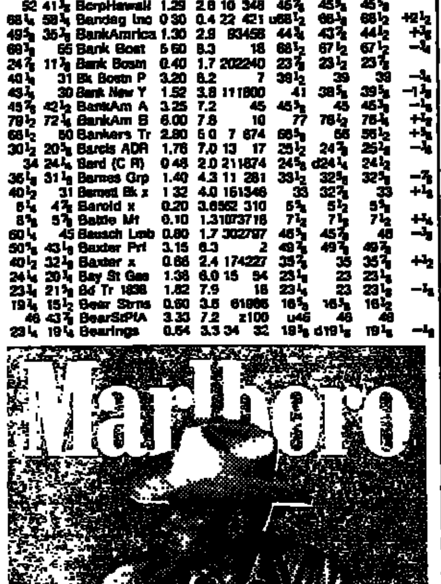

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NYSE COMPOSITE PRICES

Continued from previous page

1992 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
82¼	65½	Xerox x	3.00	4.4		173694	70¼	68¼	68⅞	−2¼
53½	50½	Xerox1 125 x				z100	53	53	53	
28½	24⅞	Xtra 1.94	1.94	7.0		7	27¾	27½	27½	−¼
37	28½	Xtra Corp	0.80	2.2	13	43	35	35½	36	+1⅛
27	25¼	Yankee Egy x	1.68	6.4	11	22	26⅛	26	26	−⅛
1½	½	Zapata			49	577	1	1	1	
11⅛	6¾	ZenithElec			3	511	7½	7⅜	7⅜	−⅛
18⅛	14½	Zenith Nat	1.00	5.6	8	74	18	17⅞	17⅞	
7⅛	6	Zenix Inc	0.82	12.1		221	6⅞	6¾	6¾	−⅛
13¾	11	Zero Corp	0.40	3.5	18	384	11⅞	11½	11½	−¼
38	28½	Zurn Ind x	0.88	3.0	31	422	29½	29	29	−¾
14⅛	12	Zweig Fund	1.16	9.6		676	12⅝	12⅛	12¼	+⅛
11	9½	Zweig Totl x	1.00	10.3		1367	9¾	9⅝	9¾	+⅛

Price data supplied by Telekurs.

Yearly highs and lows reflect the period from Jan 1, excluding the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

a-dividend also xtra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE PRICES

4:00 pm prices June 15

NASDAQ NATIONAL MARKET

4:00 pm prices June 15

- X - Y - Z -

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
Xilinx		23	1280	21	20¼	20¾	
Xoma Corp		6	5851	13¾	d12¾	13⅝	+⅝
Yellow Fr	0.94	28	1169	28⅞	26¾	28¼	+1
York Rsch		5	1283	6½	6⅛	5⅞	+⅛
ZionsUtah	1.44	10	16	53¾	52	52	−1¾

AMERICA

Dow recoups early losses in subdued trade

Wall Street

ALTHOUGH US share prices recovered from early losses incurred in the wake of Friday's bad news from Monsanto, stock market sentiment remained subdued all day, leaving major indices little changed at the end of trading, writes Patrick Harverson in New York.

The Dow Jones Industrial Average closed a slight 0.54 up at 3,354.90. The more broadly based Standard & Poor's 500 gained 0.50 at 410.26, while the American SE composite was down 2.54 at 388.78 and the Nasdaq composite 0.53 easier at 568.99. Turnover on the New York SE was very light at 169m shares.

Overnight weakness in foreign markets, particularly in Tokyo where the Nikkei average tumbled 2.5 per cent, plus the Wall Street market's failure to hold on to Friday's early 30-point Dow gain, set the tone for a weak start to trading yesterday. By the first half-hour, the Dow was down more than 16 points, but there was sufficient demand to bring the index back to its opening level by noon.

The early losses were linked to the decline of Monsanto shares, which plunged $5¼ to $53⅞ in turnover of 2.3m as investors reacted to Friday's late warning from the chemical company that its second-quarter earnings would be between 20 and 30 per cent below analysts' estimates that ranged from $1.60 to $1.80 a share.

Such was the backlog of sellers that trading in Monsanto was delayed at the start until the order imbalance had been rectified.

Leading tobacco issues were unsettled by news that Federal prosecutors are conducting a criminal probe into whether the big cigarette makers had misled the public about the health dangers of smoking. Philip Morris fell $1⅞ to $73, RJR Nabisco lost $¼ early on but finished steady at $9⅝, and American Brands dipped $⅝ to $47.

Browning-Ferris put on $⅝ to $21 after Kidder Peabody, the broking house, upgraded its rating on the stock from a "hold" to a "buy", citing the benefits of the recent equity offering and predicting a return to earnings growth not seen since 1990.

Barr Laboratories plummeted $2½ to $6 on news that the US Food and Drug Administration is seeking court approval to prevent the company from manufacturing or selling drugs. The court hearing is scheduled for June 24.

Utilicorp dropped $4 to $23⅞ on stating that it would take a second-quarter 21 cents a share charge following the discovery that some of its funds had been misappropriated.

On the Nasdaq market, Century Medicorp rose $⅝ to $11½ after the company said it would meet analysts' estimates of $1.13 a share for the year ending June 30.

Canada

TORONTO showed some recovery from an early slide to end on a mixed note after slow trading. The TSE 300 composite index was finally 1.79 up at 3,409.8, while declines held a slight edge over rises by 263 to 259. Volume was 23.2m shares.

The energy group showed the biggest decline, 1.18 per cent, as Gulf Canada fell C$3¼ to C$6⅞. The company reported that first test results from its Indonesian gas properties were "very discouraging".

SOUTH AFRICA

JOHANNESBURG's industrial index closed sharply lower ahead of the start of the ANC's demonstrations against the government, losing 68 to 4,522. The overall index fell 21 to 3,688 while the gold index was 34 higher at 1,147.

EUROPE

Downward trend continues on the Continent

The downward trend continued on Continental bourses yesterday, writes Our Markets Staff.

FRANKFURT saw Schering and other chemicals fall after Fisons's London plunge last week, while Thyssen and other steels were depressed by a view of its steel subsidiary's prospects. Construction stocks, particularly Philipp Holzmann, fell on a rumour of a Deutsche Bank downgrade.

Schering fell by DM13 to DM720.50, Thyssen by DM6.90 to DM239.50 and Holzmann by DM30 to DM1,085 as the DAX index closed 8.37 lower at 1,773.90, after a 1.97 decline to 708.23 in the FAZ at midsession. Turnover fell from DM4.6bn to DM4.4bn.

Schering was weak earlier this month, on its own forecasts and on the government's proposals for a two-year freeze on pharmaceuticals prices.

On Thyssen, Mr Michael Geiger of County NatWest thought that Thyssen Stahl's weekend forecast of a mere 1991/92 breakeven might reflect the group's plans to merge it with Thyssen Edelstahl, its speciality stainless and light alloy steels counterpart.

Holzmann has recently produced excellent results, with cash flow up 50 per cent, and Mr Geiger does not share reservations about its prospects, saying that a reported fall in the growth of orders still leaves it with a huge backlog, of improved quality at that.

There was less support for Asko, the highly-geared retailer whose supervisory board chief, Mr Helmut Wagner, departed at the end of May. Since then the shares have come back from DM838 to DM722, accelerating on Friday and yesterday with falls of DM30, and DM31 respectively.

PARIS was depressed by a weak domestic bond market which fell on news that the Bundesbank president Mr Helmut Schlesinger saw no room for a cut in German interest rates in the near future. However, a firm start on Wall Street helped the market recover from the day's lows, leading some brokers to believe that the market was stabilising after its recent fall. The CAC 40 index dropped to 1,906.91 before ending at 1,918.14, down 10.15, in very thin turnover of FFr1.5bn.

Suez was one of the day's more prominent gainers, adding FFr6 or 2 per cent to FFr310 as two domestic brokers were seen actively buying the stock for institutions. Dealers said the share looked attractive since it was just off its year's low of FFr282 and was down from a year's high of FFr348.90.

Oil stocks were weaker, with Total falling FFr5.30 to FFr250.70 and Elf losing FFr5.10 to Fr376. Schneider lost another FFr23 or 3.5 per cent to FFr640 following last week's pessimistic earnings forecast.

MILAN was again restricted to open-outcry trading as the screen-based system remained out of operation. Dealers estimated volume at L60-L70bn in trading dominated by position-squaring ahead of the close of the June account today. The Comit index fell 2.09 to 472.85.

Stet was one of the most active stocks after last Friday's pricing of its share and warrants issue. The stock gained L36 to L1,946 and reached L1,953 after hours. Fiat was also active, on short-covering, adding L19 to L5,200.

Capital increases from Italcementi, Snia and Milano Assicurazione are due to start tomorrow. Italcementi fell L220 to L13,400.

AMSTERDAM weakened in low volume. The CBS Tendency index shed 1.1 to 128.4.

Nedlloyd lost Fl 1.10 to Fl 55.70 with some analysts noting that a court ruling scheduled for Thursday on the appointment of Mr Torstein Hagen to the supervisory board was affecting sentiment.

Fokker lost Fl 1.00 or 3 per cent to Fl 33.10 as the prospect of an announcement on talks with Dasa receded. Royal Dutch lost Fl 1.10 to Fl 157.80 and Heineken was Fl 2.30 down at Fl 161.00.

STOCKHOLM's morning rally run out of steam under the influence of weaker foreign markets and concern about the government's stability. The Affärsvärlden General index closed 4.60 higher at 948.10.

Hennes & Mauritz, the clothing retailer, reported a 67 per cent rise in half-year profits and the shares rose SKr9 to SKr164 in strong trade. Handelsbanken A rose SKr3 to SKr54 on a belief that they had discounted too much bad news ahead of the bank's four-month results today.

HELSINKI reported its lowest inflation rate since 1970, as Outokumpu moved from loss into profit for the first four months of 1992. The Hex index rose 9.7 to 791.3 and the mining group's shares by FM1.20 to FM45. VIENNA failed to be enlivened by the debut of Flughafen Wien. The ATX index eased 0.97 to 992.51. Flughafen Wien was fixed at Sch380, in line with last week's grey market prices, and 13 per cent above its offer price of Sch335. BRUSSELS traded in a narrow range with the Bel-20 index closing 6.10 down at 1,205.18 in low volume of BFr542m. OSLO fell for the 10th session as the all-share index dropped 5.05 or 1.2 per cent to 431.73 in thin trading worth NKr130m.

FT-SE Eurotrack 100 - Jun 15

Hourly changes

Open	10.30am	11 am	12 pm	1 pm	2 pm	3 pm	close
1162.54	1163.52	1162.50	1161.46	1161.01	1159.52	1159.40	1159.75

Day's High 1163.95 Day's Low 1159.02

Jun 12	Jun 11	Jun 10	Jun 9	Jun 8
1167.48	1162.52	1174.58	1174.96	1177.48‡

Base value 1000 (26/10/90). ‡ Partial

ASIA PACIFIC

Business pessimism wipes 2.5 per cent off Nikkei

Tokyo

PESSIMISM carried over from last Friday's tankan, or quarterly business survey from the Bank of Japan, and the Nikkei index fell below 17,000 for the first time since April 22, writes Emiko Terazono in Tokyo.

The 225-issue average lost 430.45, or 2.5 per cent, to 16,953.23. It opened at the day's high of 17,339.42 and dropped to a low of 16,926.23 just before the close on light arbitrage selling and small-lot profit-taking by dealers.

Volume plunged to 200m shares from the 764m registered on Friday, which was the expiration day for June options and futures. Buying by institutions, which have indicated interest in purchasing at lower levels, remained small-scale.

A fund manager at Dai-ichi Life, describing the herd mentality of Japanese fund managers, said: "The cash ratio of our investments has increased, but no-one wants to be the first in committing money."

Declines overwhelmed advances by 884 to 113, with 141 issues unchanged. The Topix index of all first section stocks retreated 22.89, or 1.7 per cent, to 1,305.47, and in London the ISE/Nikkei 50 index eased 1.00 to 1,015.17.

Further deterioration of business confidence among company managers, as indicated in last week's tankan, left investors worried over the uncertainty of an early economic recovery. Comments by the Bank of Japan after the release of the tankan, denying the need for a change in monetary policy, failed to reassure investors.

Traders stressed the need for monetary action by financial authorities. Mr Peter Johnson at Baring Securities said: "The market now depends on a demonstration by the authorities of their understanding of how weak the economy is."

Turmoil on the political front also added to the nervousness, as opposition members of the House of Representatives handed in their resignations in protest of the ruling Liberal Democratic Party's handling of the government's bill to send Japanese forces on United Nations peacekeeping missions.

Dealers and investment trusts unloaded speculative "theme" stocks, bought for quick profits. Meiji Milk Products, the most active issue of the day, weakened Y22 to Y971, and Morinaga Milk Industry receded Y16 to Y874.

High-technology blue chips fell on selling by investment trusts and foreign investors. NEC dropped Y22 to a low for the year of Y861, while Fujitsu slipped Y13 to Y620 and Hitachi Y18 to Y765.

Investors stepped up selling of bank shares. Daiwa Securities said movements of bank stocks were the key to fluctuations in the Nikkei index. "The index will fall sharply if the market sees another heavy selling of bank shares as in April," said a Daiwa analyst. Dai-Ichi Kangyo Bank declined Y30 to Y1,260 and Mitsubishi Bank retreated Y50 to Y1,650.

In Osaka, the OSE average shed 377.30 to 19,957.42 in volume of 7.3m shares.

Roundup

KUALA LUMPUR stood out as the rest of the Pacific Rim got off to a slow start, dampened by the fall in Tokyo.

Bombay's brokers boycotted trading because several companies refused to transfer shares sold by Harshad Mehta, the central figure in India's latest, and worst, financial scandal.

KUALA LUMPUR saw small-investor interest in the afternoon following steady institutional morning buying, and the KLSE composite index ended 9.62, or 1.6 per cent, higher at 600.17.

NEW ZEALAND eased after late falls in Carter Holt Harvey and Fletcher Challenge. Carter Holt slipped 9 cents to NZ$2.56 in light volume, while Fletcher Challenge lost 6 cents to NZ$3.56 in moderate volume.

The NZSE-40 index closed 11.05 down at 1,532.11, in moderate turnover of NZ$16.6m after NZ$23.1m on Friday.

Magnum Corp continued its recent rally, firming a cent to NZ$1.09 and taking its rise over the last three sessions to 6.9 per cent following the appointment of Mr James Strong as its new chief executive.

MANILA, closed for a holiday last Friday, suffered from last week's decline of Philippine Long Distance Telephone (PLDT) on the American Stock Exchange. The composite index finished 5.39 lower at 1,575.56.

PLDT tumbled 90 pesos to 1105 pesos. In the US, it had recovered from last Thursday's $40⅞ to $41⅞ on Friday, but this still compared with $43½ on Wednesday.

BANGKOK continued to concentrate on property stocks after last week's general surge, the SET index ending 2.68 stronger at 743.37. Bangkok Land topped the actives list and closed Bt1 higher at Bt148.

AUSTRALIA declined in dull trading, the All Ordinaries index shedding 4.2 to 1,647.1 in turnover of A$143m, after A$196m. Gold shares, however, moved forward in line with the higher bullion price. Newcrest Mining rose 3 cents to 68 cents and Placer Pacific gained 2 cents to A$2.57.

TAIWAN finished lower in moderate trading. The weighted index lost 3.64 to 4,672.49 in turnover of T$38.54bn, after Saturday's T$46.33bn.

SEOUL retreated as investors took profits after two days of gains. The composite index dipped 0.99 to 579.81 in turnover of Won382.5bn.

SINGAPORE's Straits Times Industrial index was up 3.01 to 1,519.88, after having kept to a tight range for most of the day.

Europe rocked by Maastricht fall-out

MARKETS IN PERSPECTIVE

	% change in local currency †				% change sterling †	% change in US $ †
	1 Week	4 Weeks	1 Year	Start of 1992	Start of 1992	Start of 1992
Austria	-0.60	+2.75	-20.59	+9.23	+6.10	+5.02
Belgium	-0.94	-1.99	-1.97	+3.34	+0.54	-0.47
Denmark	-1.55	-4.14	-12.01	-8.14	-9.83	-10.47
Finland	-2.73	-10.17	-27.79	+1.93	-0.68	-1.68
France	-2.51	-4.02	+6.36	+10.02	+8.42	+7.33
Germany	-0.62	+1.44	-0.61	+10.52	+7.40	+6.31
Ireland	-1.92	-3.72	-6.56	-3.18	-5.12	-6.08
Italy	-3.45	+0.36	-20.24	-3.79	-5.89	-6.83
Netherlands	-0.30	+2.41	+6.87	+11.92	+8.78	+7.67
Norway	-2.53	-3.41	-15.81	+6.59	+4.36	+3.30
Spain	-2.52	-4.88	-10.87	+1.17	-0.42	-1.43
Sweden	-2.61	-1.99	-8.39	+10.04	+8.14	+7.05
Switzerland	-1.67	-1.23	+11.31	+13.46	+8.91	+7.81
UK	-2.57	-3.31	+3.69	+5.52	+5.52	+4.45
EUROPE	-2.02	-2.05	+0.89	+6.77	+5.25	+4.18
Australia	-1.41	-0.51	+8.98	-0.49	+0.41	-0.62
Hong Kong	-3.52	+3.43	+61.74	+38.15	+40.44	+39.01
Japan	-1.47	-1.61	-29.65	-23.30	-23.56	-24.33
Malaysia	+0.78	+0.52	-8.53	+3.03	+12.57	+11.43
New Zealand	-2.25	-0.76	+4.64	-1.32	+0.24	-0.77
Singapore	+1.19	+4.64	+2.18	+3.95	+4.92	+3.86
Canada	+0.17	+0.30	-5.50	-2.92	-4.80	-5.77
USA	-0.97	-0.26	+9.39	-1.76	-0.76	-1.76
Mexico	-5.08	-1.39	+59.88	+17.00	+15.28	+14.11
South Africa	-0.89	+0.33	+13.71	+7.93	-1.27	-2.27
WORLD INDEX	-1.43	-1.00	-5.28	-5.55	-5.74	-6.70

† Based on June 12th 1992. Copyright, The Financial Times Limited, Goldman, Sachs & Co, and County NatWest Securities

By John Pitt

It was another choppy week in Europe as share prices continued to weaken in the wake of Denmark's 'no' vote in its referendum on the Maastricht treaty. Equities followed the bond markets down, with only Germany and the Netherlands, among the majors, resisting the steep falls recorded by other bourses.

Beyond Europe, where the Danish 'no' held less interest, a weak Wall Street and a lacklustre Nikkei average, which seems unable to break out of a range around 17,000, weighed on sentiment, leaving the FT-Actuaries World index 1.4 per cent lower on the week in local currency terms.

Within Europe, Italy, Spain, France and the UK led the others lower. Spain and Italy stand out because of the perceived problems which both have in meeting the convergence criteria which form part of the Maastricht treaty. Other factors depressing sentiment in Milan included the difficulty in resolving the deadlock over the formation of a new government, and technical problems with the computer-linked trading system towards the end of the week which kept volumes low.

Although the Maastricht fall-out is likely to affect European markets for some time to come, the release of German money supply data this week may inspire a little confidence, with some analysts forecasting a small fall in M3.

Mexico had its own problems, with unsubstantiated rumours that Telmex employees were about to sell their 2.9 per cent stake leading the market down. Uncertainty remains as to what the employees will do, with reports that each could be allocated $20,000 worth of stock presently held in a trust fund.

Among the Asian markets, Hong Kong was a negative feature while Singapore had a reasonably good week. Mr Michael Franklin of Kim Eng Securities in London said steady institutional buying of blue chips in Singapore helped the index advance.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	MONDAY JUNE 15 1992								FRIDAY JUNE 12 1992					DOLLAR INDEX		
Figures in parentheses show number of lines of stock	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	1992 High	1992 Low	Year ago (approx)
Australia (69)	148.64	−0.9	118.70	119.09	121.44	130.89	−0.4	4.17	149.92	120.02	120.02	122.92	131.38	153.68	140.94	139.50
Austria (19)	175.39	+0.3	140.07	140.53	143.30	143.09	−0.2	2.05	174.89	140.01	140.02	143.39	143.32	186.70	162.48	169.62
Belgium (46)	144.24	+0.4	115.19	115.56	117.85	114.89	−0.1	5.31	143.66	115.00	115.00	117.78	114.96	146.19	135.87	128.49
Canada (115)	127.93	−0.4	102.17	102.50	104.52	110.47	−0.3	3.34	128.44	102.82	102.82	105.29	110.81	142.12	125.60	141.66
Denmark (35)	239.33	+0.4	191.13	191.76	195.54	196.69	−0.2	1.86	238.45	190.88	190.90	195.50	197.18	273.94	226.81	237.86
Finland (15)	78.20	+2.0	62.45	62.66	63.89	70.27	+1.8	2.01	76.71	61.40	61.41	62.89	69.02	89.80	73.64	102.90
France (104)	161.15	−0.2	128.69	129.10	131.65	133.78	−0.6	3.51	161.46	129.25	129.25	132.36	134.55	168.75	148.06	131.44
Germany (65)	124.85	+0.1	99.71	100.04	102.00	102.00	−0.3	2.27	124.73	99.85	99.87	102.26	102.26	124.92	114.67	110.90
Hong Kong (55)	245.16	+0.0	195.78	196.42	200.31	243.33	+0.0	3.37	245.16	196.26	196.26	201.01	243.33	254.67	176.36	152.35
Ireland (16)	158.97	+0.9	126.96	127.37	129.88	131.57	+0.4	4.13	157.60	126.16	126.17	129.21	131.01	173.71	151.78	146.86
Italy (78)	70.26	+0.0	56.11	56.29	57.40	62.41	−0.3	3.34	70.24	56.23	56.23	57.58	62.62	80.86	68.39	78.17
Japan (473)	100.80	−1.9	80.50	80.76	82.36	80.76	−1.8	1.05	102.77	82.27	82.28	84.27	82.28	140.95	88.70	132.14
Malaysia (69)	241.90	+1.4	193.18	193.80	197.63	234.68	+1.5	2.65	238.68	191.06	191.06	195.67	231.26	250.18	212.49	238.28
Mexico (18)	1589.31	+0.1	1269.21	1273.37	1298.50	5420.85	+0.2	1.06	1587.51	1270.86	1270.92	1301.56	5411.91	1799.77	1376.91	1022.27
Netherland (25)	163.81	−0.3	130.82	131.25	133.84	132.37	−0.7	4.24	164.39	131.60	131.60	134.78	133.29	164.39	147.88	135.56
New Zealand (14)	46.16	−1.0	36.86	36.98	37.71	45.14	−0.9	5.09	46.62	37.32	37.33	38.23	45.56	48.52	42.01	48.30
Norway (23)	183.56	−0.6	146.59	147.07	149.98	152.98	−0.9	1.66	184.69	147.85	147.86	151.42	154.29	192.95	161.26	192.51
Singapore (36)	229.63	+0.7	183.38	183.99	187.61	171.59	+0.7	1.93	228.15	182.64	182.65	187.05	170.48	229.63	192.78	200.43
South Africa (61)	238.65	−1.9	190.59	191.21	194.98	185.79	−0.5	2.77	243.24	194.72	194.73	199.42	186.70	263.60	208.16	223.63
Spain (50)	153.53	−0.4	122.61	123.01	125.44	114.97	−0.8	5.29	154.17	123.42	123.43	126.40	115.92	161.72	146.86	150.55
Sweden (27)	196.51	+1.3	156.93	157.45	160.56	164.95	+0.9	2.69	193.91	155.23	155.24	158.98	163.55	200.28	173.09	187.22
Switzerland (61)	108.13	−0.1	86.35	86.64	88.35	94.82	−0.9	2.27	108.21	86.62	86.63	88.73	95.66	108.21	95.99	90.95
United Kingdom (227)	193.17	−0.2	154.27	154.76	157.81	154.27	−0.4	4.82	193.57	154.96	164.95	158.69	154.96	200.07	165.85	164.18
USA (522)	167.02	+0.1	133.38	133.83	136.47	167.02	+0.1	3.01	166.89	133.60	133.61	136.83	166.89	171.66	160.92	153.93
Europe (791)	153.71	−0.1	122.75	123.16	125.59	124.85	−0.4	3.92	153.86	123.17	123.18	126.15	125.41	156.88	139.31	134.54
Nordic (100)	181.24	+0.8	144.74	145.21	148.08	145.38	+0.3	2.24	179.88	144.00	144.01	147.48	145.01	188.52	169.66	179.75
Pacific Basin (718)	107.33	−1.7	85.71	85.99	87.69	87.11	−1.6	1.42	109.14	87.37	87.37	89.48	88.49	141.97	94.40	132.84
Euro−Pacific (1509)	126.09	−0.9	100.70	101.02	103.01	102.71	−1.0	2.64	127.24	101.86	101.86	104.32	103.77	145.21	113.80	133.84
North America (637)	164.56	+0.1	131.42	131.86	134.48	163.17	+0.1	3.03	164.47	131.66	131.68	134.87	163.07	169.69	158.70	153.08
Europe Ex. UK (564)	130.07	+0.0	103.87	104.23	106.29	107.82	−0.4	3.24	130.09	104.14	104.17	106.68	108.30	131.77	121.81	116.34
Pacific Ex. Japan (245)	171.59	−0.1	137.03	137.50	140.21	152.57	+0.1	3.52	171.82	137.55	137.58	140.89	152.47	175.31	149.00	139.47
World Ex. US (1703)	128.34	−0.9	102.49	102.84	104.86	105.16	−1.0	2.65	129.51	103.67	103.69	106.18	106.19	146.91	116.45	135.53
World Ex. UK (1998)	135.44	−0.5	108.16	108.52	110.67	121.16	−0.6	2.53	136.19	109.02	109.04	111.67	121.85	150.58	127.21	138.46
World Ex. So. Af. (2164)	139.77	−0.5	111.62	112.00	114.21	123.69	−0.6	2.79	140.46	112.44	112.46	115.17	124.38	153.05	130.04	140.20
World Ex. Japan (1752)	162.60	+0.0	129.85	130.29	132.87	149.28	−0.1	3.36	162.67	130.22	130.24	133.39	149.47	165.40	153.20	146.60
The World Index (2225)	140.42	−0.5	112.14	112.51	114.73	124.25	−0.6	2.79	141.13	112.98	112.99	115.72	124.94	153.70	130.66	140.72

Constituent changes with effect 16/6/92: Addition: Winterthur (Reg.) and Zurich Insurance (Reg.) (both Switzerland). Hong Kong market closed June 15.

FINANCIAL TIMES SURVEY

CHINA

SECTION III

Tuesday June 16 1992

Thirteen years of economic reform have brought progress; society is more free and parts of the country are much more prosperous than they were. But **Alexander Nicoll** writes that more fundamental reforms need to be implemented

Future in the balance

IT IS tempting to view the overt prosperity of China's deep south as an indication that free markets and investment in private sector manufacturing are sweeping the communist system away.

The idea appeals to the westerner because it fits in with events in the former Soviet empire, in which communist parties and the countries they ruled have collapsed like houses of cards. It also appeals to many Chinese who have become, or would like to be, better off.

The orchid grower in Guangdong province, in the prosperous south of China, has no doubts about the benefits of economic reform. "Before the reforms of the system, we couldn't plant orchids," says the retired agricultural official, still a communist party member. "It was called capitalism, and if you planted them, they were taken away by the government. Now you can do things as you like."

From his comfortable home – the orchids growing in pots on the roof fetch up to Yn10,000 each – he looks out at a recently-built sports stadium, evidence of the wealth that the factories springing up everywhere have brought to the Pearl River Delta.

Such changes cannot yet, however, be taken as indicative of China's overall direction. Thirteen years of economic reform have brought progress. Society is more free, and parts of the country are much more prosperous than they were. The rapid growth of industrial production and exports is also alarming its neighbours, who have relied on attracting foreign investment to a low cost base to fuel their own economic development.

The future remains in the balance. Far more fundamental reforms – of prices, state industry and social welfare – need to be implemented if even the progress made so far is to be cemented. It is not clear that the leadership is willing to contemplate them.

The collapse of the Soviet Union has left China's communist leaders, who crushed a pro-democracy movement in Tiananmen Square three years ago, all the more determined to hold on to power, but divided as to the best way to do it.

On the one hand, it has strengthened the arguments of the reformers who believe that producing economic growth is the best way to retain authority. On the other, it has stoked fears among more conservative leaders about the loosening of control which is implied by reform.

The climate for economic reform has improved this year, with the symbolic visit of Deng Xiaoping, the 87-year-old paramount leader, to Guangdong province. Mr Deng sees economic progress as the most effective way for the communist party to retain its hold on power. Making his first known public appearance for more than a year, he urged a redoubling of efforts to reform.

However, his visit did not surface in the official media for nearly two months. This revealed deep divisions within the party leadership. It also demonstrated that even in relatively open Guangzhou and in the Shenzhen special economic zone across the border from Hong Kong, the party's hold is such that a significant event of this nature could occur and yet pass unreported for some time.

Nevertheless, his exhortations have given a fillip to reform-minded officials all over China. Each province is pushing ahead with its own plans and projects, and Beijing is being swamped with applications to set up special zones, give tax exemptions, and establish stock markets.

Mr Deng set a target for Guangdong to become a new dragon or newly industrialising economy within 20 years. Its economy is becoming increasingly intertwined with those of Hong Kong and Taiwan, providers of capital and, potentially, of technological and management skills. Every other province would like to attract foreign investment just like Guangdong.

Economic reform has, indeed, brought considerable benefits, easily visible in the shops and on the streets in many areas of the country. But in most respects, the progress made so far – though significant in a country as large as China – represents the easy part.

Guangdong is prosperous because investment from Hong Kong and elsewhere has been pouring in to take advantage of cheap labour. Industrial production rose 27 per cent last year in spite of sluggish export markets. To advance, southern China needs better legal, social and physical infrastructure, and the transfer of technology and management skills.

Cleaning up the image of Mao Zedong which hangs over the Gate of Heavenly Peace in Beijing

Chinese agriculture is basically a private sector activity, with virtually all farmers having individual responsibility for leased plots. Initially, this brought a big rise in production, which has levelled off since the late 1980s. Agriculture needs big investment to improve its production and yield.

Greater efficiency in agriculture has produced a large labour surplus – officials say the figure could reach 200m people in the 1990s. Already 93m of them have been absorbed in rural and township enterprises – light industrial ventures run on commercial lines – which have given a substantial lift to industrial production and exports. They fulfil other aims: narrowing the rural/urban income gap; reducing the flow of redundant farm workers into cities; and spreading a wider net to catch foreign investment.

But rural enterprises will need proper management, marketing and technological skills if their role in the economy is to continue to grow.

All these more progressive areas – coastal industry, agriculture and rural enterprises – need a healthy economic and political backdrop. In spite of the renewed commitment to reform, this must be in doubt.

China's economy during the 1980s saw bursts of growth triggered by reforms, creating inflationary pressures which were met by tough austerity measures. The effects of restraint were felt especially severely by the new, dynamic areas: private and rural enterprise.

With every province now again going for growth, there is a substantial risk that the same go/stop cycle will recur. China needs smoother macro-economic control.

In part, this simply reflects the enormous challenges involved in changing the direction of a centrally planned economy. Reform around the edges of the socialist system creates intense pressures within it, particularly for price reform. Liberation of prices (including interest rates) brings inflation and political problems, as well as further disrupting grossly inefficient state-owned industries.

Because of the growth of the private and rural sectors, state industries represent a much smaller proportion of the economy than they did before reform. But they are still bleeding the economy dry.

There have been moves to free prices and to make managers take more responsibility. But there is no system for them to take responsibility for losses, and in any case they can often do nothing to prevent structural losses caused by fixed prices.

It is difficult for them to increase efficiency by reducing their workforces, because they provide housing, medical care and education to their employees and their families – the so-called iron rice bowl – though increasingly, workers are being put on fixed-term contracts rather than receiving lifelong benefits.

In addition to full-scale price reform and a new social welfare system – both large tasks – state industries need an infusion of management skills, a slashing of the bureaucracy which governs them, new legal infrastrucuture and proper accounting.

For such reforms to be tackled, a high degree of political will is necessary. In spite of the rhetoric of the leaders, and the enthusiasm of the officials charged with planning such changes, proof is awaited that the will exists.

China is still ruled by veterans who have spanned at least 50 years of fighting for and maintaining communist control. They are united by two things – their advanced age and their determination to retain control. They have not developed any institutional means for power to be passed on. Mr Deng remains the leader though he holds no official posts, but his authority is far from unchallenged. The future political and economic shape of China depends to a large extent on who dies first and who subsequently wins the battle for power.

IN THIS SURVEY

Editorial Production: Phillip Halliday

Zhu Rongji (left) and Zou Jiahua: rumoured to be likely successors to the PM

Deng Xiaoping with grandchild (left) and daughter (right) touring Shenzhen in January

Premier Li Peng (left) with President Yang Shangkun and party chief Jiang Zemin (right)

■ POLITICS

Split over speed of reform

The diminutive figure of Mr Deng Xiaoping towers over orthodox political debate. He is the only one of the octogenarian leadership with the intellectual vigour and personal clout able to exercise a decisive influence on events in China, writes Simon Holberton

Any discussion of politics must take into account three facts of life concerning the Chinese polity.

Firstly, the Communist Party of China has abandoned Marxism, though not Leninism. The party now stands for staying in power, above all else. But communist egalitarianism and central planning, which made the country poor, has given way to tolerance of inequality and markets, which might make it rich.

Secondly, political life is still dominated by a clique of elderly revolutionaries, the *primus inter pares* of whom is Deng Xiaoping, 87. Mr Deng's aim is to ensure that China's door remains open to foreign economic development, though not ideas. Many of the rest appear to stand for little more than safeguarding the future of their children and followers.

Thirdly, and crucially, the Chinese leadership has not devised an institutional structure for the transfer of power from one generation to the next. In an age when Chinese leaders have repudiated assassination as a political instrument, politics at the very top is as much about correctness or deviation in policy as it is about brokering compromises and forging consensus between competing interests.

It is against this background that events in 1992, both past and forthcoming, have to be set. The two key ones are Mr Deng's trip to the southern province of Guangdong at the beginning of the year, and the 14th Congress of the Communist Party due to be held in the last quarter of this year.

The diminutive figure of Mr Deng towers over orthodox political debate in China. He is architect of the country's economic reforms over the past 13 years and is the only one of the octogenarian leadership with the intellectual vigour and personal clout able to exercise a decisive influence on events in China.

That Mr Deng can still exercisé this power underlines the essentially feudal nature of Chinese politics as he holds no formal position in either the government or, more importantly, the Communist Party. But Mr Deng's influence and power should not be overstated; he is not a latter-day absolute monarch whose writ runs unlimited.

His trip to the south went unreported in China's media for nearly two months. His personal intervention – a rare attendance at a politburo meeting – was needed to get the working leadership's endorsement of his views after an intense rearguard action was fought by opponents mainly located in the party's propaganda and culture bureaucracies.

His personal testament – released to the party as Central Committee Document Number 2 at the beginning of March – had to be censored before its release because it contained criticisms of senior party officials. And he had to court the military's approval.

The form, if not all the content, of Mr Deng's thought has won broad support. Any visitor to provincial China cannot but be impressed by the lift Mr Deng's sojourn to the south has given Chinese officials who are charged with administering local economies and local interests. It is no coincidence either that his biggest supporters in Beijing are those officials who have come to the leadership via senior positions in the provinces.

The consensus which appears to be taking shape nationally is one which supports economic reform and further foreign engagement. Few party officials would disagree with the proposition that growth is good. They know that rising prosperity is popular with the Chinese people; most probably agree with Mr Deng that salvation lies only in going forward, not back. As Deng noted in Document 2: "The people are pleased and the world has been astonished" with China's development over the past decade.

Where disagreement exists is on the speed of reform and economic growth and the role of the centre versus the provinces. This came to the fore during the meeting of the National People's Congress in March when prime minister Li Peng's work report was amended 150 times – a public humiliation without recent precedent in Chinese politics. But Mr Li survived this humiliation; importantly his target rate of growth for the Chinese economy of 6 per cent was left unamended.

However, the debate over the growth rate and centre versus province is becoming more academic as each day passes. Beijing has been singularly unsuccessful in developing instruments of macroeconomic control while the provinces are learning well the ancient lessons of Chinese politics: they mouth the line but go their own way. Reform measures on the agenda, such as those planned for state enterprises and social welfare, suggest a further weakening of central control.

What is clear from the current debate is that political reform is not on the agenda. As one western diplomat said, concerning Document 2: "It emphasised [Deng's] overriding concern for social order and economic reform. It gave no sign of hope of any liberalisation in the political sphere. Deng looks to the model of development in South Korea, Singapore and Taiwan; he doesn't believe that economic reform has to be accompanied by political reform."

As Mr Deng approaches the end of his life his greatest failure has been his inability either to devise a structure for power transfer or, more traditionally, to anoint a successor. He failed with the late Hu Yaobang and the disgraced Zhao Ziyang, and he shows little enthusiasm for his third choice, Jiang Zemin, the general secretary of the party.

The 14th congress of the party is due to be held later in the year. Congresses occur every five years and are important events in the life of the party. A new central committee and politburo are selected – two of the most powerful institutions in the country.

Observers in Beijing, both foreign and local, believe that the congress may well remove Li Peng from the prime ministership

If Mr Deng's southern tour was about putting new vigour into the economic reform debate it was also about the leadership. As he has said: "A correct political line has to be underwritten by a correct organisational line."

Determining the organisation is something the communist party is currently engaged in. Party committees all over the country are selecting delegates to provincial assemblies which, in turn, will select representatives to the congress.

The 14th congress is the last one in which the gerontocracy can play a large role, assuming no significant deaths before the end of the year. The leadership that is selected will have to take China to the next, more difficult, stage of reform.

Observers in Beijing, both foreign and local, believe that the congress may well remove Mr Li from the prime ministership, though not from the leadership.

It is felt that Mr Li is not wholeheartedly behind the economic reform movement, that his heart really lies in central planning. Rumoured successors include Zhu Rongji, the industry minister and Zou Jiahua, head of the state planning commission.

Mr Zhu appears to be of the liberal/reformist stripe and is well connected with Jiang Zemin whom he succeeded as mayor of Shanghai. But Mr Zhu is seen as possibly too reformist and the smart money in Beijing is betting on Mr Zou, a more conservative reformer, for the premiership if Mr Li loses his job.

As one observer of Beijing politics observed: "I have never seen a party congress that lived up to the advanced billing. Congresses always get stalled on personnel issues. China is a big country with factions and interest groups to be taken account of and it is made more complex now because of the children."

The children of the gerontocracy hold important provincial and national posts and many of them are making a bid for a seat on the central committee. The sons of veteran politicians such as Mr Deng, Chen Yun, Yang Shangkun, Peng Zhen, the late Nie Rongzhen, and Xi Zhongxun are all making a bid for a seat on the central committee.

Some are undoubtedly talented – such as Mr Chen who is deputy governor of the People's Bank, China's central bank – but many have simply used their parents' position to enrich themselves.

It will be an indication of just how feudal China still is if many of them succeed. It will send a signal to the party and the people at large that the way to get on in public life remains determined by the strength of your connections, not your talent.

■ FOREIGN RELATIONS: trade takes over the driving seat

Resisting new world order

THE collapse of the Soviet Union and China's desire to modernise its economy are the two main determinants governing the country's external relations.

The former robbed it of the opportunity to engage in power politics by playing the US off against the Soviet Union, with whom it had just normalised relations. The desire to modernise has meant that ideology has taken second place to trade-based relationships – a policy no better demonstrated than in China's policy towards the Korean peninsula.

The aim of China's foreign policy today is to ensure the stability of its borders – especially those with central Asian countries of the former Soviet Union, the Korean peninsula and Indo China – and to resist president Bush's new world order, which Beijing sees as nothing more than a US grab for global hegemony, under the rubric of non-interference in other countries' domestic affairs.

In prosecuting this policy, the past year has seen some notable failures, as well as successes, for Chinese foreign policy.

In July last year, Mr Jiang Zemin, general secretary of the Communist Party, visited Mr Mikhail Gorbachev in Moscow, the first visit of a Chinese party leader since Mao went there in 1957. The restoration of party-to-party relations in 1989 had promised big things for China, especially concerning the transfer of sophisticated Soviet military technology, but this was dashed in the aftermath of August last year.

The disintegration of the Soviet Union, the end game of which was the attempted coup against Mr Gorbachev, was wholly unanticipated by Beijing. China moved quickly to recognise the Yanayev junta only to see it crumble after three days of chaos in Moscow's streets.

Today, senior Chinese officials are scathing about Mr Gorbachev. According to Mr Jiang En Zhu, a vice-foreign minister: "The disintegration of the Soviet Union represented a failure of their domestic and foreign policies." He went on to enumerate how the Soviet Union had engaged in rivalry with the US and had failed to improve the lot of its people. "Since 1980 China's gross national product has grown by an average of 9.6 per cent a year; the people's life has been improved," he says.

Since its initial stumble, Beijing has regained its composure and moved to establish diplomatic relations with members of the Commonwealth of Independent States. A succession of latter-day central Asian potentates have travelled to Beijing over the past six months to sign treaties of friendship and commerce. According to western diplomats a vigorous trade is being conducted across China's northern boarder.

On the Korean peninsula, China has been a force for stability. It has deftly managed its relationship with Pyongyang while deepening its relations with Seoul. It sponsored a divided Korea's entry into the United Nations and has sought to curb North Korea's nuclear ambitions.

Kim Il Sung, the North Korean dictator, visited Beijing last October hoping to secure economic aid. Mr Kim tried to play the Confucian card; in a replay of Korea's traditional relationship to the Middle Kingdom, Mr Kim characterised China as the elder brother to the younger North Korea. The Chinese took him instead on a tour of foreign joint-venture companies and told him to modernise his economy.

Meanwhile, trade between China and South Korea is growing strongly and last year totalled $5.7bn on a bilateral basis. In north-eastern China, mainly Shandong province, South Korean companies have set up more than 130 joint ventures with an aggregate investment in excess of $120m.

The Chinese embrace of South Korea is mirrored more widely in its growing relations with south-east Asia. Diplomatic relations have been established with Indonesia and Singapore – to where Yang Shangkun, China's president, paid a visit earlier this year. Relations have been repaired with Vietnam, although they remain subject to dispute over the Spratly Islands, and Cambodia.

If central, north and south-east Asia represent a relative triumph for China's foreign policy then Europe and North America remain relative failures. The events of the June 4, 1989, Tiananmen massacre, still cast an unhelpful shadow over China's relations with the developed world.

There is a widespread view in the West that the Chinese government is out of step with the march of history; that it is a regime living on borrowed time. When Li Peng, China's prime minister, visited Europe and the UN earlier this year, the mainland Chinese press was full of reports of deals done with industrialists; no mention was made of the pressure he came under about China's record on human rights or the opprobrium with which he is held.

China's relations with the US have been particularly tense since Tiananmen. The US is the only world power capable of effecting change in China. US success has been weak on the political front but considerable in trade matters where it holds the whip hand, in the form of its annual renewal of most favoured nation status, MFN.

China acceded to US demands over intellectual property and copyright; it now seems likely to do so again about US demands for greater transparency in goods and services trade. US pressure has been successful in getting China to sign the Nuclear Non-Proliferation Treaty and the US-led Missile Technology Control Regime, which seeks to control the export of missiles with a range greater than 300 kilometres.

However, Mr David Shambaugh, of London's School of Oriental and African Studies, observed*: "The American missionary impulse to convert China is once again shaping the evolution of the relationship . . . US-China relations, which have historically followed a love-hate cycle, are likely to get worse before they get better."

Relations with Britain are dominated by Hong Kong. They have been slow to thaw from the post-Tiananmen freeze. Britain's appointment of a leading politician to the governorship may pose another set of problems for China as it seeks to regain the colony with as little of the baggage of western liberalism as possible.

Mr Christopher Patten will want to leave his stamp on the colony. He is expected to be predisposed to listen to calls for greater democracy. Whether he can accede to them is a different question. But one thing does seem certain. In Mr Patten, Hong Kong will have an able advocate and China a more sophisticated adversary than they have been used to for a long time.

Simon Holberton

*Asian Survey, January 1992, p.30

Kim Il Sung, North Korean dictator, visited Beijing last October

Christopher Patten will want to leave his stamp on Hong Kong

■ THE ECONOMY

A more relaxed grip on the reins

The imbalances underlying the economy will not allow it to grow healthily for long unless comprehensive reform is taken further. Alexander Nicoll reports

China's economy has an alarming propensity to boom and then bust. Twice in the 1980s, the brakes had to be slammed on its rapid growth because of dangerous inflationary pressures. The latest risk is that overheating will again rapidly recur.

In China's typical cycle, the growth period sees rapid expansion of credit, money supply, investment and consumption, and is followed by tighter control of credit, investment and prices. However, this quickly creates budgetary pressures, because of chronically loss-making state industries, and unemployment. So the cycle is repeated.

The tendency for severe cyclical swings is inextricably linked with pressures caused by economic reform. The transition from a planned to a market economy is difficult, and Chinese reformers are anxious to avoid the chaos which has occurred in the former Soviet Union and eastern Europe.

The slowdown in economic reform, though often identified with the political crackdown on pro-democracy elements after the Tiananmen Square massacre in 1989, began at the end of 1988 as inflation approached 20 per cent even though prices for many leading goods remained controlled.

A period of austerity reduced the inflation rate to 2 per cent in 1990, and the economic growth rate to just over 3 per cent compared with the 10 per cent annual average for the 1980s.

The reins have been steadily relaxed since then. However, Chinese economists are worried that large pent-up enthusiasm for reform around the country has been let loose this year by Deng Xiaoping, China's paramount leader. Mr Deng's endorsement of the economic progress made in the south, especially in Guangdong, has inspired provincial officials elsewhere to move faster on reforms.

As part of the reform process, which has been under way for 13 years, provinces have far greater autonomy even though they must still apply to Beijing for approval of significant projects and they still depend on the central planners to approve, for example, new electricity capacity.

Professor He Jianzhang, director of the institute of economics in the Chinese Academy of Social Sciences in Beijing, says: "We have some concern about overheating of the economy in the provinces. The provinces are focusing on taking big steps forward despite their different conditions and circumstances."

Prof He says that some of the inland and remote provinces will have to accept slower growth rates because they lack the infrastructure to support rapid growth. "We believe that the economic growth rate should be conducive to the overall improvement of economic efficiency."

Introducing better macroeconomic control while at the same time freeing up the economy will be the greatest challenge for China's planners in the coming years.

An attempt to avoid the cyclical swings might, for example, begin with changes in the way in which credit is allocated. Currently, banks operate with quantitative credit controls set by the central government. The role of interest rates in the granting of credit remains limited.

However, giving a greater role to interest rates would involve substantial reform of the banks, which still carry out a large amount of state-directed lending to loss-making industries. Secondly, it would have a significant effect on borrowers, since loss-making enterprises would face higher cost of credit which they would be unlikely to be able to afford. This, in turn, would increase the urgency of industrial, price and social reforms.

Macroeconomic control is made more complex by the rapid growth of new enterprises – private sector industry and rural enterprises which have been developing rapidly and which operate on more commercial lines than state industries. Both suffered severely in the slowdown of 1989 and 1990, whereas inefficient state industries, which still account for about half China's industrial production, retained the protection of government subsidies, fuelling the budget deficit.

There are signs of greater discipline. Dou Jianzhong, executive vice-president of CITIC Industrial Bank, says that in the face of fears about renewed overheating: "Bankers are reminding themselves to keep a clear mind, and not to do what they are told".

In a normal market environment where banks had greater freedom (CITIC Industrial Bank, for example, is not allowed to make long-term loans to back industrial investment), they would be happily looking forward to the next few years' business.

Economic growth is expected to be healthy. The Asian Development Bank, forecasting before the effects of Mr Deng's pronouncements became clear, projected growth in 1992 and 1993 just exceeding last year's 7 per cent. Industrial production was forecast to grow 15 per cent this year, compared with 14 per cent in 1991. These predictions mask big disparities between different regions of the country, since growth is particularly concentrated in the south.

Consumption spending is expected to accelerate as a result of rising urban incomes, and investment will rise because of heavy spending on infrastructural development.

However, the budget deficit will remain large, and inflation in some areas is probably much higher than the official figure – consumer prices officially rose 3 per cent last year and the ADB projects them to increase 7 per cent in 1992.

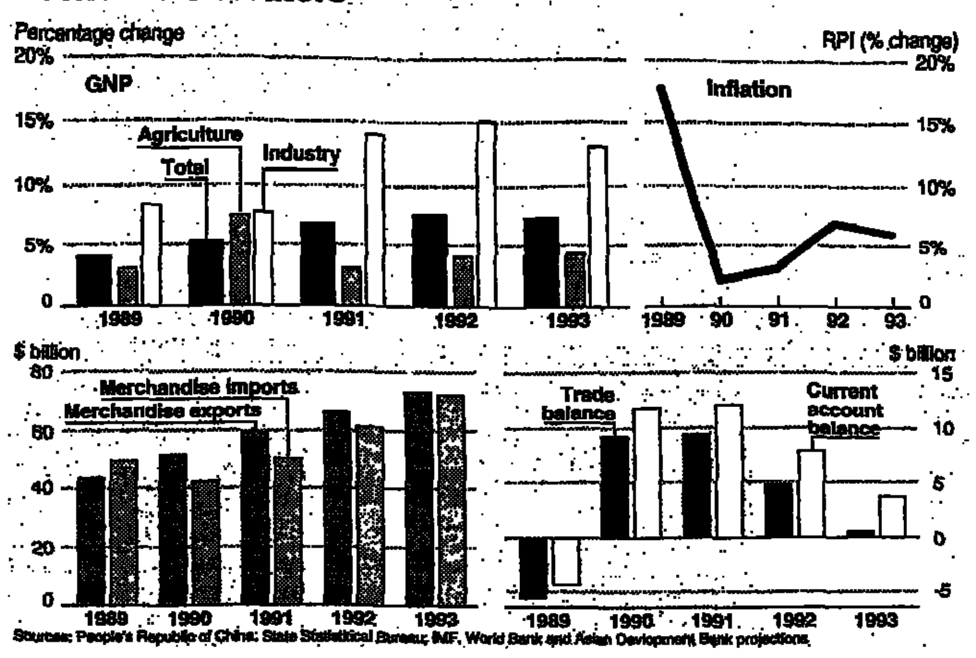
Unemployment is heavily understated by official figures, since state industries keep unneeded workers on the payroll. However, with a growing proportion of the labour force outside the state sector and more vulnerable to cyclical swings, it will increasingly be a problem the government cannot ignore. Reforms of state industries will inevitably involve job losses.

China's trade position is expected to remain healthy, even though imports are likely to rise because of higher consumption and investment spending and relaxation of import controls.

Following the push towards economic reform this year, the flow of foreign investment, especially into the south, is likely to remain strong in the absence of political upsets.

However, the imbalances underlying the economy will not allow it to grow healthily for long unless comprehensive economic reform is taken further. Price controls, subsidies and other protections necessary to maintain a grossly inefficient public sector will increasingly be incompatible with development of a strong market-oriented economy. This could spell political problems, because the economic strength is concentrated in the south and the weakness in the north.

Economic indicators



Sources: People's Republic of China: State Statistical Bureau; IMF, World Bank and Asian Development Bank projections.

■ FOREIGN TRADE: human rights cast shadow over talks with US

Bush takes a tougher stance

A senior Chinese textile official was recently reported in the US as suggesting that Beijing was considering a joint venture in offshore garment production: factories would be built in the US and, perhaps, Mexico, with Chinese technology and machinery and local labour and raw materials.

The timing of the report, mid-May, gave it a ring of authenticity. The suggestion was made two weeks before President Bush was due to issue his annual renewal of China's Most Favoured Nation trading status.

Ever since the 1989 Tiananmen Square massacre the renewal has been more difficult for the US president to justify to Congress, so things tend to happen around renewal time: long-sought laws on intellectual property rights are published while Beijing promises to increase imports.

To extend MFN – which gives China the same tariff treatment as most other nations – the president must certify that Beijing is not in violation of US human rights standards. Failing that, he can waive the criteria, stating that MFN would substantially promote free emigration.

Thanks to the benefits of MFN, the US trade deficit with China was $12.7bn in 1991 – the second largest US deficit after Japan's – and it is still growing. Textiles and clothing account for about one quarter of Chinese exports; the rest are mostly consumer goods such as bicycles, costume jewellery, toys, games and sports and electrical equipment.

Removal of MFN status would deal a significant blow to China's exports and to the economy of Hong Kong.

To fend off last year's attempt by Congress to impose conditions on China's MFN, Mr Bush began to get a little tougher with Beijing.

He vowed to impose sanctions if Beijing did not agree to protect intellectual property rights, support Taiwan's membership to the Gatt, cut illegal textile and apparel shipments, and strictly monitor goods thought to be produced by prison labour. Licenses to sell high-speed computers and satellites to China were to be disallowed until China promised to adhere to international non-proliferation standards.

The policy produced results. Hours before the US was prepared to impose sanctions on $300m-$500m worth of Chinese products for Beijing's failure to protect intellectual property rights, a deal was reached. China promised to improve protection of computer software, sound recordings, pharmaceuticals and agri-chemicals. It vowed to join the Berne Copyright Convention by next October and the Geneva Phonogram Convention in June 1993.

Last October, the US Trade Representative initiated a Section 301 investigation of Chinese market access barriers. Talks can go on for a year before the president orders retaliation. The four core issues to be resolved are China's extensive import licensing system; lack of transparency in its trading rules; bans or quantitative import restrictions; and the use of technical standards and certification as trade barriers.

After first making slow progress, US officials described the most recent market access talks last month as "the most constructive and productive ever". Beijing offered to phase out import licensing requirements for more than 50 product categories and promised to provide "an exhaustive and authoritative" list of Chinese import bans, controls and quotas within two months.

Substantial differences remain, but the Chinese appear to be convinced that sanctions will happen if they do not co-operate. The US diplomatically presents the 301 talks as an exercise to help China prepare for Gatt membership. The unspoken threat is that Taiwan will be ready before China is.

In another slap at Chinese trade practices, the US Customs Service has launched one of its largest investigations in an effort to contain the flood of Chinese exports seeking to avoid quotas or to use prison labour.

In May, customs officials announced indictments of four Chinese businessmen and three companies for undervaluing textile imports with the intention of defrauding the US government of import duties totaling $120,000. Agents blocked in US warehouses 10 shipments of goods allegedly made with Chinese prison labour. Ultimately charges for duty evasion could reach $2bn.

All this activity is supposed to convince Congress that US-Chinese trade problems should be addressed directly and not through cancellation of MFN. One of Mr Bush's principal supporters on the MFN issue, Senator Max Baucus, the Democratic chairman of the Senate trade subcommittee, has begun to hint of defection unless the Administration agrees that the North American Free Trade negotiations will include more on environmental issues.

Some congressmen are working hard to make MFN conditional on human rights improvements.

There is talk of setting up a middle category of duties for China – higher than the MFN level and lower than that accorded to the former Communist countries.

Ms Holly Burkhalter of Human Rights Watch has proposed higher duties on selected products, the number of which would be tied to release of political prisoners or other human rights gains. Penalties on products could be selected among those produced by state companies.

To end China's MFN, Congress would have to muster a two-thirds vote in both houses. That is unlikely to happen. But this is an election year, and the Democrats will not miss one more opportunity to portray Mr Bush as a wimp on China.

Nancy Dunne, Washington

Surplus? What surplus?

The view is rather different from Beijing, writes Alexander Nicoll. **According to Chinese statistics, China has a trade deficit, not a surplus, with the US. Last year, it was nearly $2bn. The large discrepancy occurs because of differing treatment of goods exported from China to Hong Kong. China views them simply as exports to Hong Kong, but the US views goods which are shipped on to the US as imports from China.**

However, China has apparently taken US strictures to heart and the focus of its trade policy is on reform of the import regime.

Zhu Mincai, at the Ministry of Foreign Economic Relations and Trade, says the reforms are necessary in order to speed China's entry into Gatt.

Some tariffs – for example on cars and televisions – have been reduced this year and cuts on other items are planned. A list of 1,751 items which were effectively banned from import has been abolished, so that manufacturers may import them without finding domestically produced substitutes. The number of items for which import licenses are necessary is being reduced. Previously secret regulations are to be either published or cancelled.

Related measures include a plan to move to a single floating exchange rate; and relaxation of the ban on foreign investment in retailing and financial services.

Stacking hula hoops, a new fad, on tricycles in Beijing

Grand Canal, Changzhou in the Jiangsu province

■ **INFRASTRUCTURE:** China faces energy crisis as economic growth fuels consumption

Doubts over role for foreigners

AS reformers gain ascendancy the development of China's infrastructure has become of crucial importance if the moderates are to achieve their goal of sustained market-oriented economic growth.

However, in spite of significant progress, the prospects for expanding and modernising the country's infrastructure remain clouded by financial difficulties, geography, bureaucracy, and continuing differences of opinion over how extensive a role foreign companies should be given in areas deemed vital to China's national security.

The scale and nature of the problems can perhaps be found most starkly in three areas where slow progress could prove crippling for economic development: telecommunications, transportation, and energy.

Under China's Eighth Five-Year plan, all three are deemed priority areas and receive the maximum resources the state can provide. Progress has been made in each area, yet all face significant challenges.

■ **ENERGY**

China faces a severe energy crunch, which has the potential to cripple the rest of the economy.

China derives 75 per cent of its energy from coal, of which it is the world's largest producer. The remainder of the country's energy comes from hydro and nuclear power, wind, and oil.

Of the energy that is coal-driven, 43 per cent is for industrial purposes, nearly half is split equally between electricity generation and residential and commercial use, while the remainder is needed for steel production and transportation.

Last year's coal production was about 1.1bn tons and it is expected to be about 1.4bn tons in 1995. By 2000, China's output is projected to be about 2bn tons. By then, western experts forecast China will consume one half of the world's mined coal.

In spite of this increase, China has an energy shortfall. Many factories work short weeks because of a lack of electricity, but the country's economic development is fuelling demand for even greater energy use.

The only option China has to meet its energy needs is to increase coal production. Its dilemma is how to increase efficiency in mining and transportation, and to increase efficiency in combustion with minimum environmental impact.

China's coal production has a serious environmental impact.

Much of the coal has a high sulphur content which cannot be removed with simple methods such as washing. In the winter, a haze from coal-fired boilers hangs in the air.

The rail network is inadequate and has some of the world's most intensively used lines

Inefficient use of coal stems partly from prices being set too low. The industry relies heavily on government subsidies and necessary investment is not made. Small price increases have not kept up with inflation.

"Sharp increases in coal prices could send too many waves through the economy", a western expert said. "Too big a shock would push up the prices of all other goods and this could lead to unrest."

Among other resources, the most crucial is oil. Demand is lifted by economic growth. China produces approximately 2.7m barrels of crude a day, but growth has been virtually stagnant since 1989. China has had no significant discoveries in recent years.

Questions are being raised about whether there is enough oil to support the economy. China exports 500,000 barrels a day, but western businessmen say that by 1995 it will not have enough to continue exporting.

The government is attempting to increase production in three ways: it plans to open the East China sea to foreign exploration; secondary and tertiary recovery techniques from existing oil fields are being stepped up; and much effort is being put into developing the Tarim Basin in the western province of Xinjiang.

Western oil executives say the Tarim Basin could equal the reserves found in some Middle Eastern oil fields. So far, China has not allowed any foreign equity participation in oil development and exploration in the area. But the country's economic growth and its nearly stagnating domestic oil production could compel the government to reconsider.

"China is starting to open the door a crack", a western executive said. "They are back against a wall, but their national pride and politics get in the way".

■ **TELECOMMUNICATIONS**

Because of the low density of telephones and the rise in living standards, demand for telephone services has soared. Residents in cities often wait two years and pay Yn3,000 to Yn5,000 to install a private telephone. The number of applicants increases annually by about 16 per cent, according to the official English-language newspaper China Daily.

China has about 11m telephone lines, more than three times the number 10 years ago. Placing a call internationally to the US or Europe is easier than dialling domestically or to Hong Kong. There are more gateways, the exchange equipment which manages transmission paths internationally, in China's main cities.

There are 1.92 telephones per 100 people, though in Beijing the figure is 13.5. The government is taking steps to increase capacity and is also improving communications in remote areas, particularly those with strong national minorities such as Xinjiang, inner Mongolia, and Tibet.

Acute demand has been a boon for cellular telephones. Subscription for a portable telephone costs about Yn20,000. Even so, the market has taken off, particularly in prosperous Guangdong province.

Beijing has ambitious plans to continue improving and expanding its telecommunications network. By 2000, the target telephone density is three per 100 people nationwide.

About 10,000 km of optical fibre cables have been laid and there are plans to more than double that figure in the next five years, according to western businessmen.

During the same period the government plans to add another 15m lines, of which nearly 12m will use computer switching. Nonetheless, severe problems remain.

One of the most significant is Directive 56, an internal report issued by the State Council in 1988. It stipulated that China could form joint ventures with only three foreign companies – Siemens, Alcatel and NEC – to manufacture telecommunications switching equipment to sell to the Chinese market.

Other companies were frozen out. The Chinese expressed concern about the development of too many software packages that would be potentially incompatible with the original three.

China faces Cocom restrictions on the transfer of channel signalling, technology used to re-route calls on demand automatically around damaged circuitry. This can be useful in warfare and is relied upon in the west when natural disasters damage telephone lines.

Developing physical transmission capacity and the intelligent software to manage it with limited financial resources therefore remains a challenge.

According to a western businessman, the main problems have been managing investment priorities between switching and transmission and the degree to which China is willing to partner other technology suppliers.

"They want to do everything they can locally. They know they can do it faster if they import. But they have to determine how they can balance these two objectives".

China derives 75 per cent of its energy from coal, of which it is the world's largest producer

■ **TRANSPORT**

China is moving rapidly to eliminate bottlenecks in ports and railways.

All the country's main ports – Guangzhou, Xiamen, Fujian, Ningbo, Shanghai, Tianjin, Dalian – are carrying out large expansion programmes. Ningbo, near Shanghai, has the most extensive deep water port for handling container vessels in China.

Although they lack the high throughputs and efficiency of Hong Kong or Singapore, China's ports are all fairly efficient and have eliminated the heavy port congestion and waiting times of the 1980s.

Particularly efficient is the Tianjin free trade zone where cargo can be kept under bond until the importer pays for it. Tianjin has set up a joint venture with a Dutch freight forwarding company to clear customs and provide rail service direct to land-locked Mongolia.

A priority in all ports is development of more container berths for handling coal and grain. Coal is transported across the country by rail and then on freighters down the coast to southern ports because it is too expensive to ship it by rail from the north.

Modernisation of coal handling is crucial as much equipment is obsolete, causing significant loss and spillage.

The Chinese have plans to develop further a port in the Tumen Basin near Vladivostok where economic activity is flourishing between Russia, North Korea, and China.

The government's main goal, however, is to consolidate port projects begun in the 1980s and improve information, management, and costing systems rather than to build new ports.

In contrast to the ports, the country's rail network is woefully inadequate and operates some of the most intensively used lines in the world. China is the third largest shipper of cargo per kilometre after the former Soviet Union and the US. Cargo and passenger traffic is growing at 9 per cent annually.

The main focus is to continue to develop more rail lines to relieve coal bottlenecks, double-tracking and electrifying along the main north-south corridors from Beijing to Guangzhou and Shanghai, and east to west from Zhejiang province to Changsha in Hunan province.

Electrification is cheaper than using diesel fuel and the lines can carry more traffic.

Lynne Curry,
Beijing

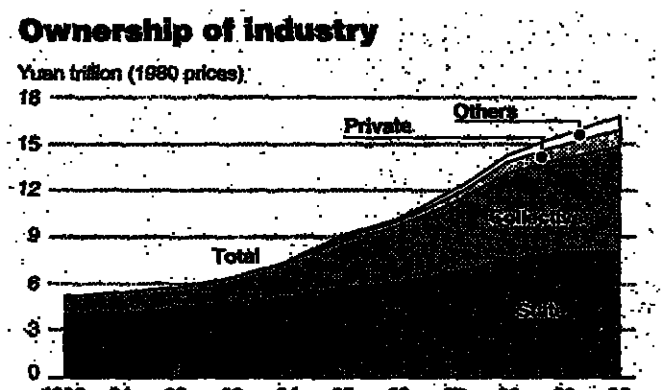
■ **INDUSTRY:** central planning still dominates a rigid system

Small fare in the iron rice bowl

JUST outside the city of Yueyang in Hunan province is a new coal-fired power plant, built with British government finance by GEC and Babcock Energy of the UK, as well as Chinese contractors. Because the province's need for electricity was urgent, it was constructed at speed.

However, from the first day of its operation late last year, the plant has made a substantial operating loss. Hunan province fixes the price at which it may sell electricity to the grid at Yn0.25 per kilowatt hour. But the cost of production is Yn0.35, in which a large element is the price of coal, fixed by the central government in Beijing.

Ownership of industry



Source: People's Republic of China, State Statistical Bureau

Provincial officials say that next year, the province will adjust electricity prices. Zhang Shang Zhi, the plant's manager, admits that he does not have much control over the situation but says that electricity prices should be freed step by step: "We do not want the price to be completely freed because we are afraid of the inflation we had before."

Mr Zhang's predicament seems a potent symbol of the problems afflicting China's state-owned industries. In spite of the attempts to introduce greater efficiencies and to make managers responsible for their finances, even new factories run up against the rigidities built into the socialist, centrally planned economy. One third of state enterprises are loss-making and another third barely break even.

The problems in the way of improving industrial efficiency include: absence of financial and managerial autonomy, poor management skills, production quotas set by the state, a rigid pricing system, overmanning, inability of wages to provide incentive to better performance, lack of proper accounting, failure of the banking system to assess creditworthiness before providing credit, and failure to use the bankruptcy law.

Under the iron rice bowl policy, most industries remain completely responsible for the housing, medical care and pensions of employees and their families.

Some industries have large stockpiles of unmarketable products and large bad debts. Subsidies and directed credits to these industries swallow a significant amount of the national budget, which is in deep deficit.

Most daunting for reformers wishing to tackle state-owned industries is the fact that most of these problems are linked. It is difficult to address one without coming up against the need to address the rest. To attack all at once, in such a large country with industries spread nationwide, might seem almost an impossible task.

In spite of the growth of privately-owned industry, especially in the south, and of local industrial enterprises run by villages or townships, medium and large industries owned by the central or provincial governments still account for about half of China's industrial output and for 18 per cent of the labour force.

As a report by the United Nations Industrial Development Organisation notes: "The government has been hesitant, in view of the enormous difficulties, to act decisively on the important issue of management/ownership of state-owned industrial sector and on fundamental reform to the price structure."

However, some measures have been taken over the past year. And following the new push to reform given this year by Deng Xiaoping, China's paramount leader, officials responsible for drawing up reform plans are talking with new determination about the need for reform.

The contract responsibility system, under which managers take responsibility for their finances and may re-invest above-target profits in the business, has been in operation for some time but has had limited success. There is no clear way for responsibility to be taken for losses: very few businesses have been put into bankruptcy and many managers, like Mr Zhang, can do very little to avoid making a loss or are unable to streamline their workforces. There has been a move to put some industrial workers on contracts, but the vast bulk of them continue to be tied to the iron rice bowl.

More recent actions include a reduction of mandatory production quotas, and adjustments to tax and depreciation rates.

Fan Hengshan, senior economist in the central government's commission for restructuring the economic system, says that planners have to distinguish between different reasons for enterprises' making losses: poor management, the economic environment, or the political or systemic structure.

Too little attention has been paid to managers' skills and to giving them a true role. Officials "are too used to the planned economy and too used to taking over the responsibilities of managers", Mr Fan says. "It is important to change the function of the government from giving orders to providing services, giving suggestions and working with them."

Mr Fan sees action being taken on various fronts. Because some factories are being closed down, creation of a social security system has become a priority. Price reform is proceeding, especially in grains. However, he sees improvement of the management of enterprises as the highest priority.

As one means of achieving this, Mr Fan and other planners believe that the shareowning system should be introduced as widely as possible in state-owned industries. They see it as shaking up managements, separating management from ownership, and providing incentives to employees. Under most experiments so far, employees receive shares, which pay dividends if warranted, but they are not allowed to sell them outside the company. However, the aim is to groom companies for eventual stock market listings.

Regulations designed to provide the backing for the new shareholding culture are due to be published soon.

One of the main obstacles to reform of industry is the massive bureaucracy behind it; the dozens of ministries and other government agencies overseeing industry and commerce. Their officials enjoy the iron rice bowl and may resist reform of industry because they have an interest in maintaining the status quo.

Relaxing the reins constricting China's industries, and nurturing managers' skills so that they can choose their products, materials, staff and pay levels, and marketing and financing methods, will be a challenge stretching over many years. In spite of the growth of private and rural industry, and the consequent smaller share of the economy taken by the state sector, it will be essential for the country's future economic health that the challenge is met.

Alexander Nicoll

■ **STOCK MARKETS**

Heavy demand for shares

Two exchanges, in Shenzhen and Shanghai, have been permitted to operate while a third, in Haikou, was shut down because it failed to gain official permission to open, writes Lynne Curry

The development of a system of stock exchanges has been hampered by ideological disputes and regulatory and administrative problems.

In spite of intense pressure from Chinese cities and provinces for the central government to allow the opening of more stock markets, so far only two exchanges, in Shenzhen, bordering Hong Kong, and in Shanghai, have been permitted to operate. A third one in Haikou, capital of Hainan province, was shut down after opening without official permission.

The government is adopting a cautious approach, but may authorise two more exchanges in the north.

"The stock exchanges will continue to expand and be a tremendous source of funds for Chinese enterprises," said a US lawyer involved in the securities business. "But it's going to be fraught with potential complications unless the fundamental problems – structure of the system, the regulatory network, and disclosure – are dealt with."

With economic reformers in the ascendancy, China's enthusiasm to set up stock exchanges is understandable. Enterprises are driven by the desire to tap into the large private savings deposits of ordinary Chinese, estimated to be worth about Yn900bn. This is in addition to several hundred billion yuan in cash "under the pillow" and in bonds and certificates of deposits.

With many state enterprises operating in the red, obtaining access to this enormous pool of deposits was the rationale for opening the prosperous markets in Shenzhen and Shanghai. Demand has been so acute that some issues in both cities were initially offered by lottery, with Chinese buyers having only a small possibility of getting any shares at all and unable to select the shares of the companies they wanted.

In the ensuing mayhem, the authorities have cracked down on gangster violence surrounding places in queues outside brokers' offices, and a Shanghai investor committed suicide over a relatively small loss.

Intense demand has driven up share prices, in some cases to unrealistic levels, and is not a reflection of improving company performance. The stock of Shanghai-based Yu Yuan Department Store, which has a reputation as well managed, jumped from Yn494.3 ($91.53) in 1990 to Yn5,037.4 ($932.85) in late April this year.

To help shift the burden of financial support Beijing gives to state enterprises, the government is planning to allow companies located elsewhere in China to apply for listings.

When the markets were opened to foreign participation, foreigners snapped up all the shares they were eligible to purchase. Several investment funds are being launched to invest in Chinese shares.

In spite of the enthusiasm, the markets are still small. In Shenzhen, 15 companies have floated A shares, available only to Chinese citizens. Of that figure, six have issued B shares, which can only be purchased by foreigners in dollars and are denominated in renminbi. In Shanghai, 14 companies have listings, only one of which has floated B shares.

The Shanghai bourse tends to be the more tightly controlled, because its employees were formerly bankers with the People's Bank of China, the country's central bank which acts as the markets' regulatory authority. However, prices doubled in a single day in May when limits on daily price movements were lifted, and then fell as the authorities sought to bar investment syndicates from ramping shares.

Nine other cities, including Tianjin, Dalian, and Shenyang in the north are all vying to open stock exchanges, but the central government is thought unlikely to approve a third until Shenzhen and Shanghai acquire more experience.

In spite of the wave of enthusiasm, further progress is being hampered by a fundamental ideological question – how to have such quintessentially capitalist institutions as stock markets in a socialist country with many state-owned companies.

The Chinese are deadlocked over the question of ownership in state-owned enterprises. When companies issue shares to the public, under current regulations, their worth cannot exceed 50 per cent of the value of the enterprises' assets, according to Chinese sources.

As the shareholding changes, it becomes more difficult to define the nature of a company, which is then partly owned by the state and partly by the public.

"Eventually, shares might be owned by state-owned companies, collectives, and individuals," a Chinese analyst said. "This possibility has given rise to great concern by central authorities who are afraid of losing control of enterprises and some state assets."

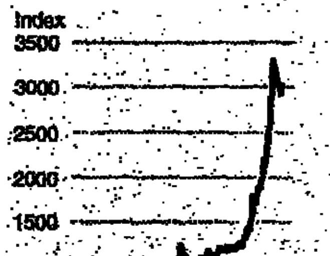
However, after Deng Xiaoping's visit to southern China this winter, the analyst said rules on ownership were relaxed slightly and that enterprises in non-priority sectors were allowed to sell more of their shares to the public.

Another problem hindering the development of China's stock markets is the lack of a strong regulatory agency. Although the People's Bank regulates the securities business in China, Chinese and foreign critics said it did the job inadequately.

"The People's Bank has too strong a self interest," a Chinese legal expert said. "They don't want a securities market – they are worried it would siphon funds away from the banks."

The government appears to be more concerned with formulating regulations, but the many layers of bureaucracy cannot agree about a Chinese version of the US Securities and Exchange Commission.

All China Index



Source: Credit Lyonnais

Moreover, the different agencies – the People's Bank, the Ministry of Finance, the State-Owned Assets Bureau, State Economic Reform Commission, and the Stock Exchange Executive Council – are competing for control of an independent authority if set up.

The lack of a company law describing how to create, operate and dissolve a company, no unified accounting principles, no strong disclosure system, and no detailed requirements for evaluating a company's assets mean the infant markets will have a series of crises during their development.

Analysts have expressed concern about the lack of insider trading regulations and potential conflicts of interest. Lawyers said the People's Bank wanted to control and regulate the securities market, but also wanted to profit from it by trading in it.

"If the government acts prudently, within the next few years, things will get better and it will set up a regulatory scheme, the necessary laws and regulations, and an enforcement team," said a Chinese observer.

"Otherwise, stock markets will go rampant, people will get hurt and the government will be forced to close them, and they will be dormant or half-dead," he predicted.

■ **SOCIAL WELFARE/HOUSING**

A crippling bill

ONE of the biggest issues facing policy makers in China is what to do about the country's cradle-to-grave social welfare and housing programmes.

As China travels further down the road towards market reforms this system is looking not only too costly but also a positive inhibition to the reform of the economy.

However, reform is complicated by a number of factors.

First, the provision of social welfare and housing policy is not centralised, but is located in the workplaces of China's workers. Co-ordinating reform, therefore, requires balancing various bureaucratic interest, not only at a national but also a provincial and city level.

Secondly, and most importantly, any far-reaching reform of social welfare and housing has large political implications, especially in the cities. China's current welfare policies were designed in 1950s to provide not only economic support for, but also political control of, the population.

Chinese city workers are assigned to a *danwei*, or work unit, which circumscribes their daily life. The unit provides housing, health and education; it also approves marriage. Within the unit is stationed the public security bureau whose job it is to monitor and maintain files on the political attitudes of the workers.

This is a powerful system, therefore, of welfare and social control and changing it has implications for both. Enter the World Bank.

Its economists have recently concluded a study* of urban housing in China. It warns that without an urgent and comprehensive reform of China's housing policies attempts to further modernise the economy could fail.

"The ability of business enterprises to restructure themselves in response to market signals requires that firms be allowed to adjust the size of their operations, the nature of their products, and the location of their plants, while adding or shedding workers, as necessary . . . To do so a housing market must emerge that operates in a significantly different manner from today's administrative allocation model," the study said.

'Too much time is being devoted to finding a scientific solution to a problem that defies science'

The past 12 years in China have witnessed the world's largest residential building spree. Between 1978 and 1990 China spent 8 per cent of its gross domestic product and 30 per cent of its total fixed capital investment on the creation of housing. Over that period about 150m square metres of living space were added annually, doubling the floor space available to the average urban dweller.

However, with households in China's urban areas – and the problem is largely an urban one – devoting only 1 per cent of their monthly income to work-unit-provided housing there are no incentives for consumers to align demand for housing with their ability to purchase it.

Housing is produced and financed by a supply-driven system that bears little relation to cost or recovery. As the bank observes, in most market economies the ratio of average house prices to average annual income is between 2:1 and 6:1. In China the ratio can exceed 20:1; the rents required to fully recover the cost of investment could be more than 70 per cent of average household income.

Indeed, World Bank analysts are concerned that rents collected are insufficient to pay for minimal housing maintenance. If this is allowed to continue China could face a financially crippling bill for new housing within a decade or more as it deals with the replacement of its urban housing stock.

Housing subsidies to urban residents have ballooned over the past decade. Between 1978 and 1988 the value of the subsidy has risen from Y4.7bn to Y58.4bn – an 11½ fold increase.

In 1978, 80.6 per cent of an urban resident's income used to be in the form of cash and bonuses; housing subsidies accounted for 6.7 per cent, welfare subsidies 11 per cent, and price subsidies 1.6 per cent of income.

By 1988, and in spite of the economic reforms introduced, subsidies had come to play and even more important role. Salary accounted for 62 per cent of income, the housing subsidy had doubled to 15.6 per cent of income, while welfare subsidies had risen to 11 per cent and price subsidies trebled to 4.8 per cent of income.

The government's response to the growing burden of housing on the exchequer has been to experiment with various market-linked reforms. Rents have been raised and home ownership has been introduced on a trial basis in some cities.

In general, however, the World Bank study found that the reforms to date had done little to resolve outstanding issues including property rights, urban planning, the diversification of housing producers and the creation of housing finance institutions based on prudent criteria.

They have also done little to encourage home ownership. In Yantai, in Shandong province, where reforms have gone deepest, the scheme mobilises savings at negative real interest rate and re-lends at slightly higher rates, subject to onerous down payment conditions and a mortgage repayment schedule of 10 to 15 years.

Beijing and Shanghai are conducting experiments with owner occupation but, in common with Yantai and other cities, they balk at cutting the knot which ties the worker to his workplace. The failure of the authorities to contemplate this has large implications for economic reform more broadly.

The past 12 years in China have witnessed the world's largest residential building spree

The World Bank said that the Chinese government should withdraw from housing – except for providing a regulatory and legal framework for property rights, mortgage finance and urban planning – and restore consumer sovereignty to the urban dweller. Leased and individually owned property should be tradable.

It said the link between work units and household housing choices must be broken. It recommended transferring control over existing housing allocation and maintenance from the *danwei* to an arms-length rental company which would receive rents which in the short-term cover maintenance and which, in the long-term, provide a commercial return on investment.

The bank sketched a plan for the deregulation and marketisation of state-controlled urban housing, estimated at 1.6bn square metres of living space, over a five-year period. It envisaged a situation where subsidies are phased out, rents rose to a truer level and where pay was adjusted to compensated workers.

Whether the Chinese government listens to this advice is moot. So far its attempts at reform have been peace meal and directed at finding the formula by which market rents can be mandated from Beijing. With a note of exasperation the bank noted: "Too much time is being devoted to finding a scientific solution to a problem that defies science." But time is one thing the authorities do not have.

Simon Holberton

**China: Implementation Options for Urban Housing Reform*, World Bank, January, 1992. 1818 H Street, NW, Washington, DC 20433, US

■ PROFILE: Guangdong

An area of prosperity

KARAOKE sets are the latest thing at Yi Fa market, two thriving avenues containing about 300 shops in Pan Yu, a town just outside Guangzhou.

Virtually all the shops, run by stall-holders who rent from the municipality, sell electronic goods, and they do brisk business in stereo equipment, air conditioners, and hand-held video games. The whole market has grown up over the past five or six years.

The state-owned Friendship Store next door is like Woolworths set beside Bloomingdales. The gadgets it sells, such as telephones and electric fans, are basic by comparison with the state-of-the-art technology with which they now compete, and which Cantonese people seem to have the money to buy.

Guangdong's prosperity is such that most city and town dwellers possess televisions, refrigerators, watches, electric fans, and washing machines. Nevertheless, the province still has a savings rate of well over 30 per cent and bank deposits by individuals rose 37 per cent last year.

In the special economic zones, especially Shenzhen, just over the border from Hong Kong, the prosperity is even more marked – a traveller by road or rail who dozed off while leaving Hong Kong and woke up in Shenzhen would not believe that he had crossed into China.

Some northerners who visit Guangdong view its rampant consumerism with distaste – but the luggage racks of trains going north carry plenty of karaoke sets and video games.

The province's drive towards the market economy was given a lift this year when Mr Deng Xiaoping, China's 87-year-old paramount leader, paid it a visit. It was Mr Deng's method of forcing a new push for economic reform – though the struggle he is engaged in against more conservative rivals was evidenced by the fact that the visit was not at first reported by the official media in Beijing.

Mr Deng's message was that Guangdong was on the right path and that other provinces should seek to match it. He told the province to be even bolder, and it is re-writing its 1991-95 five-year plan.

A boom is evident all over the Pearl River Delta area. Last year, the value of industrial output in the province rose 27 per cent at constant prices – and in the three special economic zones (Shenzhen, Zhuhai and Shantou) the figure was an astonishing 44 per cent. In the previous 10 years, the average annual growth for the province was 20 per cent.

The driving force behind this

Guangdong this year became the first province to have rice prices completely freed

growth has been foreign investment in manufacturing, particularly from Hong Kong. Industrialists in the British territory, which is due to become a special administrative region of China in 1997 and will therefore be tied even more closely to Guangdong, estimate that they invested $16.5bn in the Pearl River Delta during the 1980s. Guangdong's wage rates, though higher than in the rest of China, remain a fraction of Hong Kong's.

It is difficult to determine precisely how much of the output is from the private sector, since a number of companies with foreign or other private investment are officially regarded as state-owned or collective. But some 40 per cent of Guangdong's production is estimated to be effectively from the private sector. Before economic reform began in 1978, there was none. Much of the new production is exported – the province's exports rose 28 per cent last year.

With state-owned industries desperately over-manned and inefficient, the growth of profitable private enterprise alongside them perhaps represents China's best hope for the future. They can absorb the rapidly growing labour force and make the enterprise culture more widely accepted across the country.

Provincial officials have taken to heart Mr Deng's exhortation that in 20 years Guangdong should take its place beside Asia's four industrialising dragons: Hong Kong, Singapore, South Korea and Taiwan. They have calculated that average annual growth of 12 per cent in gross domestic product would be necess ary to achieve this target.

However, Guangdong still faces challenges if it is to meet Mr Deng's demand:

- Even though the province's infrastructure is being developed at a rapid pace, it is not keeping pace with economic growth. Roads, electricity capacity and communications will need to be built even faster.
- Growth of private property, private companies and financial markets demands much greater attention to legal and regulatory structures. There are no laws governing private property rights and no accounting standards.
- Foreign investment will need to continue to grow at a rapid pace, and to be directed steadily more towards industries involving a higher degree of transfer of management skills and technology. It will also need to spread beyond the SEZs and the counties in the Pearl River Delta which are referred to as little tigers.

At the same time, the political backdrop must continue to remain favourable and nationwide economic reforms, particularly of the pricing structure, state industries and the banking system, must advance.

Ice cream stall outside department store in Shenzhen Special Economic Zone

Politically, Guangdong could benefit if Ye Xuanping, its former governor, were to receive a leading post in the political shuffle surrounding the 14th party congress, expected to take place this year. Mr Ye successfully defied Beijing on issues such as tax and led Guangdong's development on a relatively autonomous path.

Though Mr Ye stepped down and was appointed to a less powerful position in Beijing, he has not moved to the capital and he remains an influen tial figure in the province.

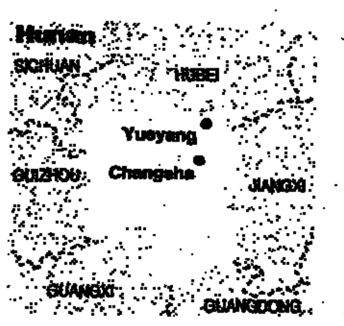
On the economic reform front, Guangdong this year became the first province to have rice prices completely freed – an experiment which has apparently avoided large fluctuations in prices. It is in the forefront of China's experiments with western-style capital markets and is expected to give foreign banks greater freedom to do business.

For the rest of China its prime role is as an example of the relative prosperity reform and foreign investment can bring. The latest symbol is Gitic Plaza, a 63-storey complex being completed in central Guangzhou by Guangdong International Trust and Investment Corporation. Rivalling the most luxurious Hong Kong office blocks in lavishness, it is the tallest building in China and will house a hotel, offices, apartments, department stores, restaurants – and the inevitable Macdonald's.

Alexander Nicoll

■ PROFILE: Hunan

Out to catch the wolf



CHEN Binfan, the vice-governor of Hunan province, sits back and reflects. "As the old Chinese proverb says: If you don't expose the child then you will never catch the wolf."

For Mr Chen, a native of Fujian province and a man who has spent three years in Japan and another five in Hong Kong, catching the wolf is a metaphor for the economic development of Hunan; and the child in need of exposure is the local economy to market forces.

"If you can not make big strides then you will be left behind by the others," he says.

Hunan, China's premiere rice growing region situated in the south east of the country, is a middle ranking province in terms of income and prosperity.

It is not as prosperous as the coastal regions of China, but neither is it as poor as the south west or north west.

Its urban population's average income was Yn1,552 in 1991 – slightly lower than the national average of Yn1,570 – while the Hunan agricultural workforce had an average income of Yn688, compared with the Yn710 nationally. Last year industrial and agricultural output grew by 9 per cent; inflation rose by 4 per cent.

Behind these numbers is a remarkable phenomenon and one which is occurring throughout China: the growth of industry outside the central planning and direction of Beijing. Rural and township industries in Hunan have, over the past decade, come from nothing to occupy a vital part in the local economy. Last year the output of these industries grew by 15.6 per cent; they account for 41 per cent of industrial output in the province.

The large growth in rural industries has enabled surplus agricultural labour to remain in rural areas, thereby relieving the cities of the large scale migration that has historically occurred in other countries which have gone through a period of high speed industrialisation.

Rural enterprise making PVC bags near Changsha

More than 4m are employed in township and rural industries and 1m have been sent to Guangdong on temporary work assignment, but the province still has a surplus of rural labour estimated at about 5m.

Some village and township companies are little more than cottage industries, such as a sack manufacturer owned and run by Huang Jin village, 60 kilometres from Changsha, the capital of Hunan. Others, such as the Yuelu Shoe Factory, situated in a township on the edge of Changsha are more serious ventures.

This factory makes 4m pairs of sports shoes a year, for markets in the Middle East, Europe and the US. It employs 700 people, mostly young women, and has a joint venture with a Hong Kong company in Shenzhen, the special economic zone in Guangdong that boarders Hong Kong. But Yuelu's cost structure underlines why much of the world's low value-added shoe manufacturers are being transplanted to China: the labour cost per pair of shoes is just 15 US cents.

Zhang Shang Zhi: electricity price is fixed too low

Mr Chen makes much of Hunan's comparative advantages of which cheap labour is one. Another is the relatively low cost of electricity. He points out that in Hunan industry pays an average 18.5 fen a kilowatt hour (there are 100 fen to a Yuan) compared with an average 40 fen a kilowatt hour in Guangdong, the province which boarders Hunan to the south.

Yet how long this cheap energy can last is moot. In Yueyang, 150 kilometres to the north on the Yangtze river, the Huaneng International Power Development Corporation's latest twin 350MW thermal power station is going through its final trials before full operation this summer.

It was built with aid from the British government and utilises generators and turbines made by the General Electric Company.

The electricity plant was non-economic from day one, saddled with a structural loss because of the state's pricing policy. Zhang Shang Zhi, the plant's manager, explains that the state requires him to sell his electricity for 25 fen a kilowatt hour, but it costs 35 fen a kilowatt hour to produce.

"Because the electricity price is fixed by the Hunan government we have no option," says Mr Zhang. "Even if we work hard the price is too low and we cannot achieve economic efficiency. We will have to wait until next year for the price to be increased."

The economic pricing of energy in China is some way off, but the provincial authorities in Hunan are trying to reform some aspects of the economic system inherited from China's 30-year experiment with Maoist economics.

Much of this work is being done by a government department known as System Reform.

Its head in Hunan is Yu Zhao Yong, director of the Hunan provincial commission of economic structural reform. Mr Yu is charged with reform of the state enterprises in the province – reform which owes its origin to the policies being promulgated at a national level by Zhu Rongji, China's industry minister.

The provincial authorities plan a five-pronged attack on state industries this year. The thrust of the reforms is to increase incentives, relate reward more closely to effort with job promotion and position more closely linked to merit. The reforms concern changes to employment and social security, and the introduction of capitalist forms of ownership, most notably company shares.

Hunan economic indicators

	1980	1985	1990	1991	1990-91 % rise
Industry gross output value (Ynm)	17,785	31,468	71,267	81,127	13.8
Rural enterprises	-	9,892	28,977	33,500	15.6
Agriculture	11,114	19,844	39,742	42,955	8.0
Investment (Ynm)					
State Industry	2,092	4,386	7,201	9,441	31.0
Agriculture	158	111	211	298	41.0
Grain Output (ton m)	21.25	25.14	26.93	27.30	-
Rice	19.43	23.39	25.17	25.34	-
Population (m)	52.80	56.22	61.10	61.91	-

Source: Hunan Statistical Yearbook, 1991

The social welfare implications of the reforms appear to be the most serious, especially the problem of unemployment.

According to Mr Yu, unemployment in Hunan is defined as those school and college leavers without work. Currently 2.3 per cent or about 100,000 of them are unemployed.

Those who are working for state enterprises but without work are not defined as unemployed, but as redundant, and, he says, there are about 140,000 redundant state workers in Hunan. They continue to draw between 75 per cent and 100 per cent of their wages and all the other benefits which go with cradle to grave employment in China, such as housing, health and education, at a nominal cost.

Hunan has decided to centralise the provision of some welfare services. Pay for redundant workers is distributed through the labour bureau, which levies charges on companies pro rata to the level of redundancy in their company. The province is planning to retrain surplus industrial workers for jobs in other manufacturing companies and the service sector.

Simon Holberton

■ AGRICULTURE

A future in grain markets

The issues facing policy makers today are less about how to feed the people but more about how to feed them better and more efficiently, writes **Simon Holberton**

One of the greatest achievements of the People's Republic has been its ability to feed the people. There are 1.2bn Chinese and, aside from the disastrous famine induced by Mao's Great Leap Forward, the government has been able to ensure they have a full belly.

It is a measure of that achievement that the issues facing policy makers today are less about how to feed the people but more about how to feed them better and more efficiently.

This is not to say that China's prime requirement of producing enough grain for its population has changed but more to highlight that markets and technology have an important role to play in China's agriculture policy for the 1990s.

Last year, in spite of damaging floods, China produced 435m tonnes of grain, second only to the record harvest of 446m tonnes in 1990. With the storehouses overflowing, policy makers judge it time to reform the country's grain marketing system. The need to reform grain marketing is pressing. Many localities have stores of rice equal to many years consumption. These stores overhang the market and depress prices. Added to that is the problem of storing all the grain China produces.

More than 50m tonnes of grain is stored in the open air, up from 45m tonnes last year and at least 20m tonnes the year before. There have been many reports of state grain procurement agencies refusing to buy grain from farmers due to insufficient storage capacity.

The State Council recently issued a directive to the provinces to make every effort to expand grain storage facilities. China is expecting another big harvest this year.

The grain trade in China is still relatively under developed. Under the household responsibility system, where peasants have limited land tenure, they are required to meet state-determined production quotas; anything they make in excess of the quota can be sold on the open market.


Watering vegetable fields near Guangzhou

China's food prices

Source: China Agriculture & Trade Report, US Department of Agriculture

However, moving grain – principally rice – from rice growing surplus provinces of the country to deficit provinces – is something which is still at a fairly rudimentary stage. China sees the development of wholesale and futures markets as one way in which to make the distribution and pricing of grain more efficient.

In October 1990, with the assistance of the Chicago Board of Trade, a futures market was opened in Zhengzhou, Henan province. This market is designed to move about 3m tonnes of negotiated-price wheat from one province to another. Since then a wholesale rice market has opened in Wuhu, Anhui province, and a wholesale corn market in Changchun, Jilin province.

The economic research service of the US Department of Agriculture estimates that about 25 per cent of China's grain market is strongly affected by wholesale and local market activity.

However, a recent article in Problems of Agricultural Economy, a mainland journal, pointed out that China had a long way to go before the futures markets really took off. It noted that China lacked well developed wholesale markets; futures markets needed speculators in sufficient numbers to ensure competition; the market needed the backing of a developed financial system and a body of law to guarantee traders' rights, equal competition and standardised practices.

Prices are still controlled, with the state purchasing grain from farmers at one price and selling it at a lower price to the cities. State subsides for grain and edible oil – which go to the 20 per cent of China's population which live in cities – amounted to Yn3.6bn in 1978; by 1990 the subsidy had reached Yn40bn, or nearly 10 per cent of total central government expenditures.

To deal with this problem, the government introduced price rises for staple foods last year. Some of the price rises were quite large, although from a low base. For example, the urban price of milled flour rose 56 per cent from 37 fen to 56 fen a kilogramme.

Signs that more radical reforms might be in the offing came earlier this year. Starting this April, the provinces of Guangdong and Fujien moved to free floating prices for rice sales in the cities and with very little evidence of upward pressure on prices. Indeed, in Guangzhou (Canton), one can see rice from other countries, mainly Thailand, on sale.

They are, of course, two of the richest provinces in the country and can well afford to pay market prices, but is an indication of the government's desire to move towards market determination of agricultural retail prices, and even ones as sensitive as rice.

In rural China farming has become much less important over the past decade as an employer. The government has been successful in developing rural and township industries which provided basic services and manufactures while at the same time absorbing rural surplus labour. They are the hope of the countryside, opined a recent editorial in the People's Daily, the principle organ of the communist party.

There are more than 18m rural and township enterprises in China employing 93m rural labourers – up from 34m in 1988 – and these have gone a long way in soaking up an estimated 120m-150m labourers surplus to farm work in the countryside. Growth in output of these industries has averaged 10 per cent to 20 per cent in the past three years and accounts for 30 per cent of China's industrial output.

The income generated from the growth of these industries has improved the lot of the farm household. Over the past decade the average living space per person in rural China has doubled to 18.5 sq metres. The greater wealth of rural inhabitants is seen in demand for consumer durables, such as refrigerators, washing machines and colour televisions.

It is rural China which constitutes an important part of the China market and many companies located in the fast-growing regions of south-eastern China have targeted the inland rural provinces for sales of consumer durables.

The communist party is aware that the past decade of rural reforms – especially the household contract system – has been a popular success in rural China. At a high level meeting of the party last year the central committee reaffirmed its support for the contract system and the limited land tenure that goes with it.

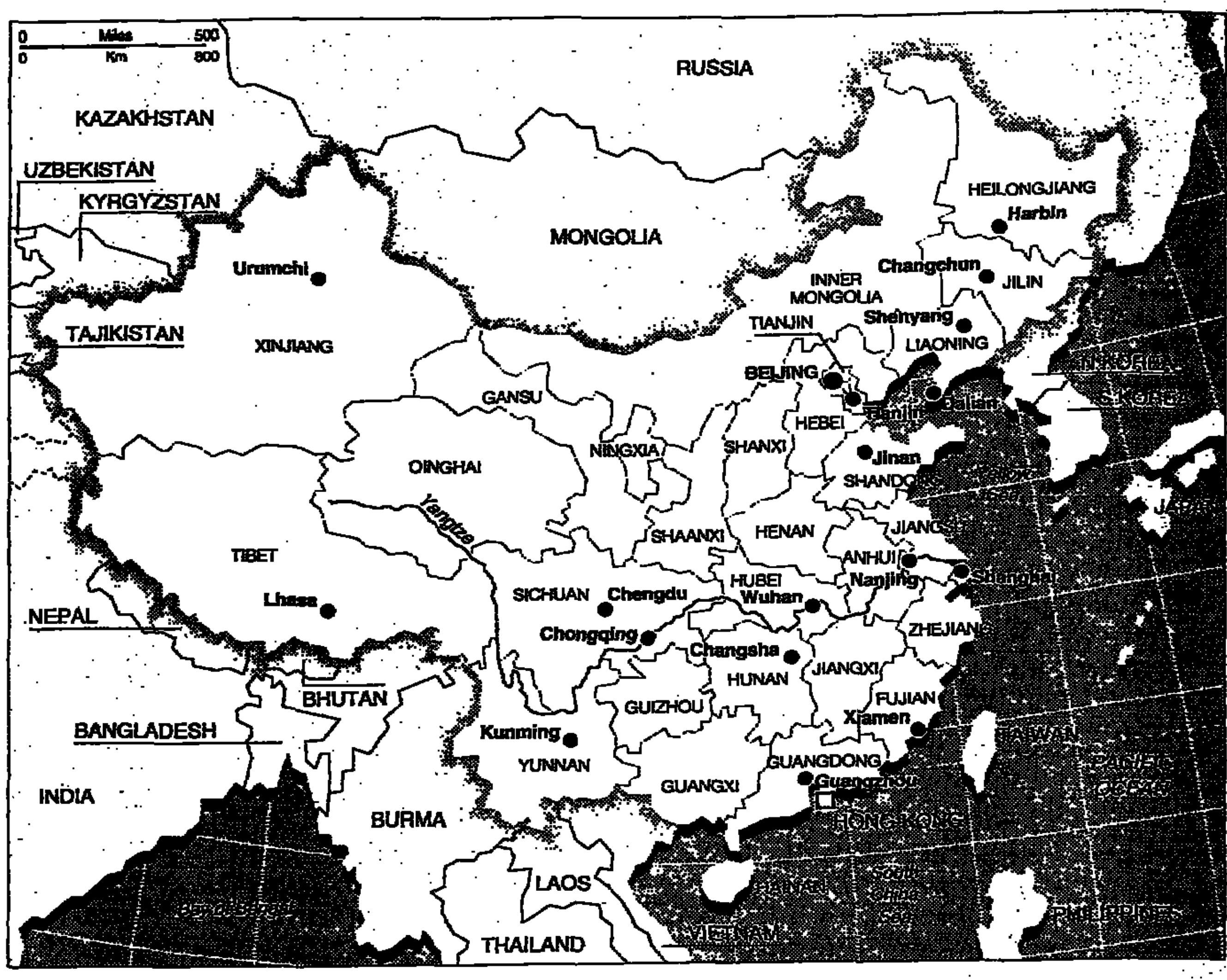
The party has accepted that there will be income inequalities in rural China. As the People's Daily, said in December: "For a fairly long period of time, excessive control over rural collective economic organisations and egalitarianism in distribution [pay] had dampened peasants' production enthusiasm and impeded the development of productive forces in the countryside."

China has turned its back on Stalinist collectivisation of agriculture, although it may be some time before it completely repudiates it. It has opted for a gradualist approach to farm and farm prices reform, while realising that urgent action is needed to improve agricultural infrastructure and internal agricultural trade.

Seventh & Eighth 5-year plans for agricultural output targets (tons m)

	Seventh 5-year plan annual average	Eighth 5-year plan 1995 target output	Average annual increase (%)
Grain	406.62	447.00	8.2
Cotton	4.04	4.64	0.1
Oilseed crops	14.46	17.26	0.6
Sugar crops	61.15	73.72	2.5
Meat	21.65	30.00	2.0
Aquatic products	10.42	14.50	2.3

Source: China Agriculture & Trade Report, US Department of Agriculture



KEY FACTS

Area	9,561,000 km
Population	1,158m (1991)
Head of state	President Yang Shangkun
Head of government	Premier Li Peng
Currency	Yuan (also known as the Renminbi)
Average exchange rate	1991 $1=5.32 Latest $1=5.5133
Urbanisation (%)	56% (1990)

ECONOMY

	1990	1991
Total GDP ($bn)	370	368.4
Real GDP growth (%)	5.0	7.0
GDP per capita ($)	324	318
Components of GDP		
Private consumption (%)	49	n/a
Gross fixed investment	39	n/a
Government consumption	8	n/a
Exports	18	n/a
Imports	14	n/a
Origins of GDP		
Agriculture (%)	27	n/a
Industry	42	n/a
o/w Manufacturing	38	n/a
Services	31	n/a
Prices (% change pa)	2.1	3.4
Ind. production (% change pa)	7.6	12.9
Unemployment (% of lab force)	3.5	3.0
Reserves minus gold ($bn)	29.6	43.7
Money growth (% pa)	20.1	26.0
Lending rate (% pa year end)	11.2	n/a
Gross external debt ($bn)	52.6	55.1
Debt service ratio (%)	10.3	9.2
Budget balance (% of GDP)	-0.8	-1.0
Current account balance ($bn)	12.0	10.3
Exports ($bn)	61.3	71.9
Imports ($bn)	52.6	63.8
Trade balance ($bn)	8.7	8.1

Main provinces, demand and population	Demand %	Pop %
Guangdong	8.6	5.5
Shandong	8.0	7.4
Jiangsu	7.5	5.9
Sichuan	5.8	9.7
Liaoning	5.5	3.5
Shanghai	4.2	1.1

Main trading partners (1990 % by value)	Exports	Imports
Hong Kong	44.7	27.4
Japan	14.3	15.7
US	8.6	12.6
Germany	3.3	4.8

Source: Economist Intelligence Unit, IMF, Asian Dev. Bank

BUSINESS GUIDE

Foreign activity lifted by new push for economic reform

The prospects for doing business in China have never been as good since the country began opening to the outside world in the late 1970s, writes **Lynne Curry**

"IT'S an extremely exciting time", said a US lawyer. "Things have been quite hot since Deng Xiaoping made his visit down south. The Chinese have become more aggressive and flexible and are really pushing."

A foreign business executive said: "The first quarter is traditionally a slow season but our office in Beijing had the highest volume of sales during that time in 12 years of doing business in China."

Within the last year, the political climate for doing business has changed significantly. China's economic retrenchment policy is officially over. The international political fallout from the 1989 crackdown at Tiananmen Square has eased.

Beijing concluded a memorandum of understanding on intellectual property rights with the US, clarified its tax law for foreigners, and plans to join the Berne Convention on copyright for literary and artistic works.

Talks with the US on opening China's markets to foreign products have shown some progress. Under US pressure, China has slowly begun publishing regulations which affect business but which were considered secret.

However, daunting obstacles still confront foreign business people in China. It is a tough market to crack even for those who do the necessary research for their products or project.

Here are some points to be remembered and tips gathered from long-time China traders about how to do business:

□ The Chinese system is in a process of quasi-reform, but is still a planned economy. The pricing structure is not rational and policies and regulations can change suddenly. For example, the price of steel jumped 50 per cent last year. Accurate forecasts of costs are difficult.

□ Because the economy is state-run in many sectors, and responds to administrative decisions rather than to supply and demand, the Chinese often do not react to business proposals within a reasonable amount of time. Concluding a business transaction takes much longer than in industrialised countries.

□ Co-operation between provinces is poor with the result that it is virtually impossible to take advantage of economies of scale.

□ In one instance, a businessman wanted to ship petrol tanks made for his factory in Shanghai to another similar operation in the north-eastern province of Jilin. But neither the governor of Jilin nor the mayor of Shanghai would accept this. The factories are therefore duplicating each other's efforts, to the frustration of the foreign management.

□ Financial institutions which are common in other countries do not exist, with the result that many people with whom one is dealing are not familiar with the minutia of international business. China has no corporate law and the country's legal foundation is very rudimentary and is being built from scratch.

□ Because of the lack of legal redress, forming relationships with the Chinese is critical to the success of a business venture. "You must work at all levels to develop contacts," an experienced executive said. "It is not enough to work at the top level. Today's middle management will be tomorrow's leaders."

If you don't pay attention to this aspect of your business, you will fail or have a tough road. When problems arise, and they inevitably do, you have a relationship established. That's the key to success."

□ Determining whether the Chinese party has the authority to sign the contract or participate in a deal is crucial. Provincial enterprises may require approval from the central government. An essential criterion is the value of a transaction. Deals exceeding certain amounts need the go-ahead from the central government.

□ What requires permission from the central authorities in one case is not always the same each time. The climate fluctuates between centralisation and de-centralisation.

"You can make a deal with a government-owned corporation which will say it has the authority to sign the memorandum of understanding," one executive said. "Suddenly, the competition is back in. The MoU was not authorised by the central government. You thought you had a deal, but now you must start from scratch. You may still get your way, but you will sacrifice more before you get in."

□ Selecting a good partner is vital and one of the most difficult tasks. Whether foreign business people are participating in a joint venture, running a trading operation, or starting their own wholly-owned enterprise, they need an ally. The right partner can make all the difference.

"It's better to have a good partner than none", said Mr John Frisbie, a representative of the US-China Business Council. "But no partner is better than a bad one".

□ A joint venture with a good partner should have the following characteristics: it should be financially sound, have political clout and solid contacts in the domestic market, and it should share a common vision with its foreign half. If the Chinese party has goals different from those of the foreign ones, it should be able to understand and accommodate them.

□ Finding a good partner can be difficult. It is important to conduct a nationwide industry survey using the services of consultants, trade associations, embassy commercial sections, and chambers of commerce.

"Any foreign company approaching China for the first time should not be able to plead ignorance if it does something wrong," one analyst said. "There are enough sources of information and advice available. If a company gets burned, that's not a good excuse anymore."

□ Knowing where to invest in China can be an almost overwhelming decision. In the coastal provinces, logistics are better, officials are more familiar with international business practices. However, one long-time China trader said: "Companies should go where the greatest need is. The areas of greatest need give more bargaining power."

□ Financing can be a severe problem. In spite of China's large foreign exchange reserves, many domestic companies have no direct access to hard currency. An operation must frequently stand on its own.

□ "The government has asked us to borrow foreign exchange outside China, but the high cost and the foreign exchange risk are a burden for the joint venture", one western manager said. "Finally, the customer pays for the government decision with the high price of the product." Because of this, finding an end-user who has access to foreign exchange is important.

□ Whatever product or service a foreigner is selling, analysts caution that its success can often depend on what China's spending priorities are. Ascertaining whether a project or product fits into the country's state plan is vital.

"What is good one year may not be good the next", said Mr Frisbie. "Last year was a good sales year for equipment, computers, electronics, and certain kinds of raw materials that China does not make."

□ Although the Chinese are committed to reducing import licenses for specific product categories, tariff rates are still high in many cases and there are other import bans on certain product lines.

□ For those buying from China, contracts should be as detailed as possible on critical issues such as quality and delivery time. Clearly spelling out what happens if certain standards are not met can help avoid problems later.

□ Some businessmen argue that contracts can be simplified and still address the important points. This may be contrary to western business practices. "Every time in my experience when lawyers are physically present during negotiations, there are problems," one executive said. "The Chinese see red when they see lawyers, and it is best to keep them out of sight."

□ The issue of obtaining political risk insurance was a sore point after the crackdown at Tiananmen Square in 1989 and delayed the conclusion of a number of contracts, business executives said. Asking the government for political risk insurance against riots was viewed as an insult when the official party line was that the country was stable.

The diplomatic solution to the problem was to include it in the cost, obtain insurance outside the country, and not mention it.

□ Corruption is a growing problem, particularly in the south, diplomats said. The smuggling of high tariff items for use in a joint venture can make legitimate competition difficult for those companies who import through legal channels and pay the high customs duties. One US company pulled out of its negotiations when it learned its competitor was offering the Chinese customer television sets.

□ The bottom line: "China is a strategic market and is still not easy to penetrate," one experienced western diplomat said. "But the pay-off can be significant for companies that have the resources to put in the effort."

BELGIUM

Jean-Luc Dehaene is the epitome of the hard-headed approach which Belgium needs. He is prepared to make Belgians sweat, if that is what it takes to guarantee a solid political and economic future for the country. **Andrew Hill** reports

Right man for the job

BELGIANS do not have much time for idealism. In a small country, burdened with one of the most complex political, linguistic and institutional structures in Europe, ideals usually do not work. Pragmatism is a much more useful commodity.

For an almost unbroken 13-year period until this March, the public face of that pragmatic spirit was the long-serving prime minister, Mr Wilfried Martens, a Flemish Christian Democrat with a talent for compromise and an ability to soothe the periodic disputes between Flemings and French-speaking Walloons.

But a massive protest vote in last November's elections rocked the traditional Belgian political parties, almost all of which lost parliamentary seats, and dealt a fatal blow to Mr Martens' premiership.

After more than 100 days of wrangling over the composition of the new government, Mr Jean-Luc Dehaene – a fellow Flemish Christian Democrat and former vice-premier – took over at the head of a smaller, more manoeuvrable centre-left coalition.

Mr Dehaene is the epitome of the hard-headed approach which Belgium now needs.

The emollient Mr Martens was long considered the only Belgian who could reconcile the conflicting demands of Flemish- and French-speakers, but he is now coming in for his fair share of retrospective criticism.

His own party, the CVP, thinks he conceded too much to the French-speakers; economists believe the spirit of compromise overcame the pressing need to tackle economic slippage in the latter Martens years.

Even Mr Dehaene – a staunch Martens supporter during his term in office – describes 1991 as "in budgetary terms, a lost year".

Such neglect, Mr Dehaene asserts, will not be repeated.

He will make Belgians sweat, if that is what it takes to guarantee a solid political and economic future for the country.

"I belong to a political party, and to do what has to be done you have to have electoral support," he told the Financial Times.

"But people are more likely to back a government which has taken its responsibility, than one that has run into the sand."

Mr Dehaene's government has two pressing responsibilities.

One is to set Belgium's economy – in particular its public finances and budget deficit – on course for European economic and monetary union (Emu) in 1996.

The other is to give new impetus to the domestic constitutional reforms which were set in motion by previous governments.

Living up to the nickname "TGV", the energetic Mr Dehaene has moved with express-train speed on the first point, wrapping up an emergency budget for 1992 in just three days before his premiership was more than a month old.

With its plans to tighten up on dole fraud, close loopholes in the tax system, and introduce a new 1 per cent social security tax, it has not been universally popular.

But without this mini-budget, Belgium's large budget deficit would have risen from 6.3 per cent of GDP in 1991 to 7 per cent this year. The measures should curb the figure to only 5.6 per cent for 1992.

A full-scale budget for 1993, which should be decided at the end of July or the beginning of August, will help put Belgium on track for a 3 per cent deficit-to-GDP ratio by 1996 – one of the three criteria for joining a full European currency union in the first wave of EC countries.

As a founder member of the Community and one of its keenest supporters, Belgium has at least a sentimental interest in being part of the Emu vanguard.

Mr Dehaene is a domestic politician at heart, but he is already honing his Euro-jargon ready for next week's Lisbon summit. He must hope he will still be prime minister in a year's time when Belgium will be poised to take over the six-month presidency of the EC.

Many believe, however, that the Dehaene express will hit the buffers long before then – derailed, ironically, by the very effort of shunting Belgium a little further towards a national federal goal.

The problem is that constitutional reform requires a two-thirds majority in parliament.

The first two stages of the three-stage programme drawn up four years ago passed without too much difficulty under Mr Martens' leadership.

But Mr Dehaene's four-party coalition – socialists and Christian Democrats from both sides of the language divide – does not command enough seats to guarantee the passage of the latest proposals. They include direct elections for the regional and language community councils, and the controversial issue of increasing fiscal responsibility for the regions.

Mr Dehaene's solution was typically workmanlike. He set up a "dialogue" between politicians from 10 parties (excluding, to their huge irritation, the maverick and extremist groups which increased their parliamentary representation at the last elections) in the hope that the requisite majority would gradually emerge.

That discussion began in April and was scheduled to restart this week, but it has moved slowly and at times has looked like grinding to a halt. Even optimists put the chances of success at only 50-50, while cynics call it the dialogue of the deaf. If it fails, then Mr Dehaene's government of pragmatists is unlikely to outlast the summer.

The political and budgetary pressures are ominously closely linked. Flemish politicians have argued in the dialogue for a regionalisation of part of the public debt, a point which the francophones will not even discuss.

French-speaking teachers, meanwhile, have this month threatened industrial action if the French community cannot deliver on its promises of increased wages – a commitment the community can only honour if it also takes on greater fiscal responsibility.

It was a very similar dispute, and its inevitable repercussions, which brought down Mr Martens' last government.

So how likely is another election in Belgium before the end of the year? Probably not as likely as one might expect, given the odds apparently stacked against Mr Dehaene.

The main stabilising factor may be fear. The strength of the popular vote against traditional politics last November came as a shock to all Belgian politicians and represented a clear signal that they should get down to business and stop squabbling.

However vocal their criticism of Mr Dehaene's plans, the opposition parties would probably be reluctant to test the electorate again so soon, particularly as the lengthy interregnum proved that in many areas the Belgian state can operate perfectly well without a strong government.

If he survives, Mr Dehaene has much he wants to do.

Reform of the public sector is one priority. It has already started with the management restructuring of some of the bureaucratic "regies" which control most of Belgium's public services.

This process may even end in privatisation, an approach promoted by many Belgian financiers and academics.

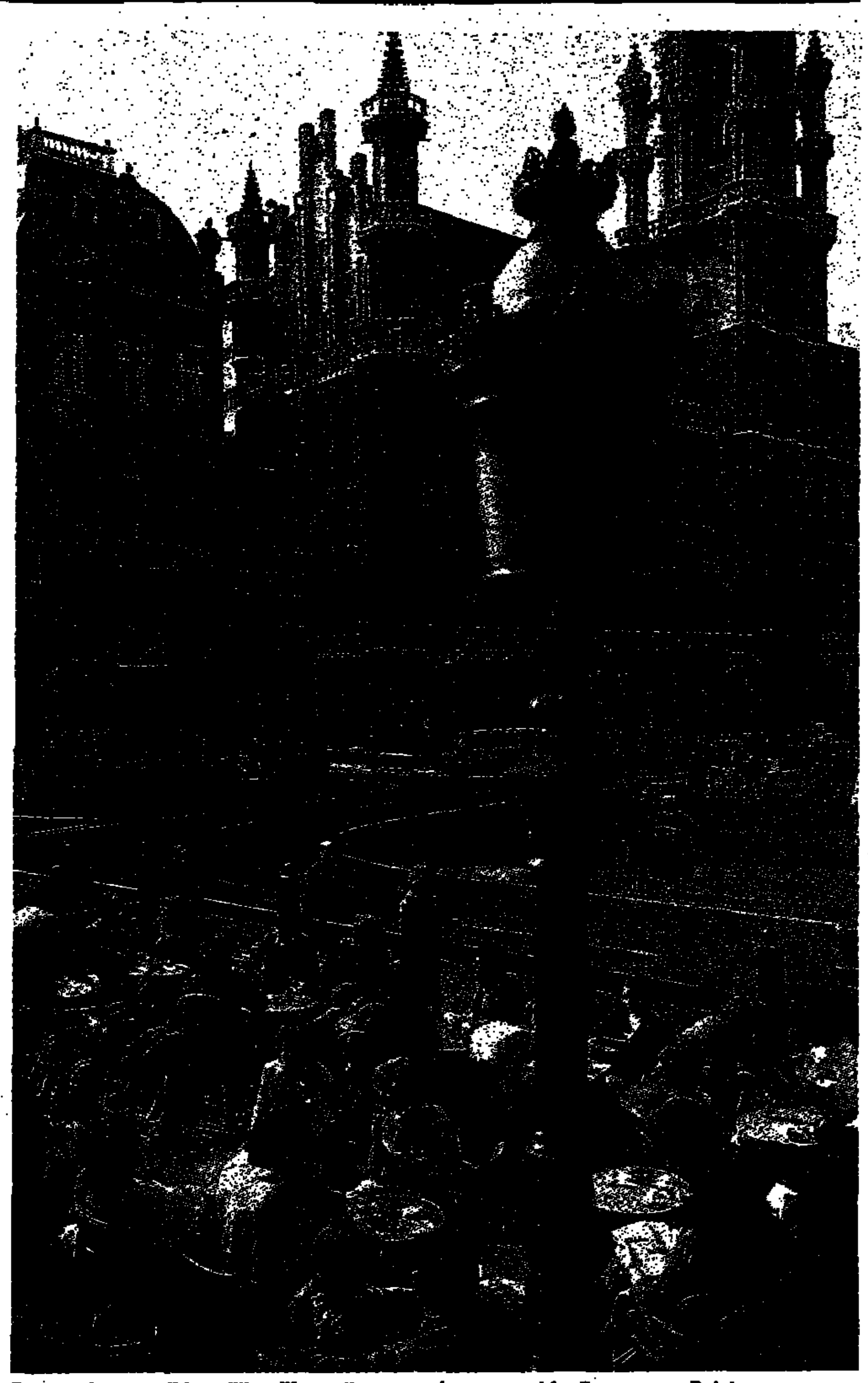
Mr Dehaene believes this should be part of the debate about the public sector, but he shies away from starting an ideological argument and says privatisation could never be the "panacea which is going to resolve all the problems" of public finance. It is a realistic approach, applauded by economists.

"When you look at the amount of inefficiency [in the economy] you can see theoretical solutions, but can you see how to correct the situation? For that you need to be very strong, you have to have vision and you have to have courage," says Mr Peter Praet, chief economist at Generale de Banque in Brussels.

He believes Mr Dehaene is probably the man for the job and is inclined to compare these attempts to prune back the overgrown public sector to the first stages of the Gorbachev-inspired reform process in the old Soviet Union.

At the moment, Belgium is benefiting from improved transparency: glasnost. Next will come perestroika, the more radical restructuring.

It seems worth pointing out – even though most analysts say it would never happen in Belgium – that stage three of the Gorbachev process was the disintegration of the central state itself.



Despite the turmoil in politics, life continues much as normal for the average Belgian

BELGIUM 2

Andrew Hill talks to Jean-Luc Dehaene, Belgium's prime minister

Bulldog tenacity needed

MR Jean-Luc Dehaene, *Belgium's pugnacious new* prime minister, is just three months into his government, but he has already got his teeth into the two basic problems which cast a shadow over Belgium's future: constitutional reform and the cleaning up of the country's public finances.

But the 51-year-old Flemish Christian Democrat will need all his bulldog tenacity if his administration is to survive the summer and complete its four-year term.

The government – like its prime minister – is small, but weighty. Mr Dehaene admits it is "un peu non-classique" by Belgian standards, with just 16 ministers (half the usual number) and a concise legislative programme. It also moves fast: an emergency budget for 1992 was wrapped up in just three days.

What the centre-left coalition lacks is the two-thirds parliamentary majority necessary to carry through the next stage of constitutional reform – a flaw which has led doubters to conclude that it is simply a stop-gap administration which will disintegrate as soon as it is tested on this fundamental *issue. Mr Dehaene himself* warns against such short-termism.

"You have to be careful not to assume that because there are fewer pages [in our programme] *and it's less detailed,* that it doesn't have much of a long-term view. One of the challenges I'm faced with is to prove that a government doesn't have to have a legislative Bible *to function* properly," he says.

Mr Dehaene was a loyal supporter of his long-serving predecessor, Mr Wilfried Martens, over nearly 13 years.

Now he has graduated from the vice-premiership to the top spot, he seems determined to do the job properly in spite of all the obstacles to efficient government which Belgian politics throws up.

So, in the hope that a two-thirds majority will evolve, Mr Dehaene has set in motion a "dialogue of the communities" – Flemish- and French-speaking politicians talking through the country's constitutional problems.

Interviewed by the Financial Times last month, the prime minister was confident that the dialogue would not end inconclusively.

"It's wrong to say that nothing will come out of this," he said.

"Most of the people taking part are doing so with the will to reach an agreement."

Almost everything else of significance that Mr Dehaene wants to do depends on the success of the dialogue. The 1992 emergency budget measures were mainly an attempt to patch up damage caused by economic neglect during the long political interregnum. The 1993 budget, which should be negotiated in the first weeks of August if all goes according to plan, is intended to tackle the deeper-rooted problem of the budget deficit – which has to halve from about 6 per cent to just 3 per cent of GDP by 1996 if Belgium is to fulfil the European Community's criteria for membership of a currency union. This, as Mr Dehaene has already made clear, will be painful, but he is convinced that it is essential – even if the people are not.

"I recognise it's difficult for the population to understand," he says. "The [economic] crisis at the beginning of the 1980s was something that everybody felt – everyone knew someone who was unemployed and everybody realised we had to make an effort. But because of everything that was done then, people now have the impression they're living in a healthy economy at a previously unknown level of well-being. According to public opinion, the state budget is the politicians' – not the people's – business."

Mr Dehaene says this is a burden which should be borne jointly by the people and the politicians. He draws a parallel with the public's road safety duties – a good analogy for Belgium, home to some of Europe's least tolerant drivers:

"Everyone complains about road safety. Politicians can contribute to solving the problem by making a certain number of rules. But in the end, if each citizen sitting behind his steering wheel, inside his steel shell, thinks that he has right on his side and that the rules were made for others and not for him, no amount of political repression is going to solve the problem."

Mr Dehaene criticises individuals who "cocoon" themselves to escape their public duties. He says this "deep malaise" is part of the explanation for the anti-political reaction of voters in the Belgian elections.

At the Lisbon summit, on June 26-27, Mr Dehaene will get his first chance to discuss that malaise with other EC leaders who have suffered a similar electoral backlash over the past year.

For a man fascinated by domestic politics, but who has hardly dabbled in foreign policy, this will be a new experience. Indeed, to get himself into the swing of summit politics, Mr Dehaene has been touring some Community capitals over the past few weeks.

Last month, before his grand tour, it was clear that there was unlikely to be any great

Dehaene has already got his teeth into two basic problems

change in Belgium's staunch pro-European stance under Mr Dehaene's leadership. The new prime minister wants the European Community to be open to new candidates, but also to build on its existing strengths – widening *and deepening, to* use the Euro-terminology.

"Unity in diversity should be the leitmotif of what we do during the years to come," he explained.

And what of Belgium itself? With its constant bickering between linguistic communities, its institutional complexities and its fragmented politics is it really a good example to the Community of a federal system in action?

Mr Dehaene pauses before answering. "We're a good example of how to try to recognise *the autonomy of* entities which have specific characteristics, and aspirations to independence, lawfully and peacefully," he replies.

"In several parts of Europe *this [move to independence]* is being accompanied by conflict and deaths. What we've achieved in Belgium, without being ideal, is a peaceful and lawful restructuring. That's *created a model* with a certain complexity – but we're dealing with a complex reality."

☐ PROFILE: CHARLES PICQUE

Recanting is not an option

AS the first chief minister of the Brussels region, Charles Picqué is the man who runs the capital of Europe. For exactly three years – since *direct elections in June 1989* – the 43-year-old socialist has had the difficult task of squaring the demands of a growing international centre with the need to preserve the "soul" of *Brussels.*

Mr Picqué and his government face some formidable obstacles, including an institutional framework of mind-boggling complexity, even by *the standards of Belgian's* complicated federal system of government.

The chief minister admits that simply managing the web of councils, executives, assemblies and Flemish and francophone commissions takes up *more of his government's time* than he would like, but he calls it "le miracle bruxellois" that the system works at all.

Much of the rest of the government's time is spent work*ing to correct or soothe the* planning and financial scars inflicted in preceding years of centralised state control when Brussels was, in Mr Picqué's words, "the unloved child of *Belgium*".

"Brussels was made poorer by the central state," he explains. "For 15 years, the 19 communes [boroughs] of the Brussels region were receiving two or three times less money than the other large towns in *Flanders and Wallonia* [the Flemish and French-speaking regions of Belgium]."

Belgium's capital has also inherited the legacy of several decades of haphazard urban *planning,* including a system of tunnels and inner ring-roads dating from the 1950s and early 1960s which has blighted some of the most attractive parts of the city.

But in trying to set right the errors of the past, Belgium has imposed new burdens on its capital's government.

Everybody seems to agree that the boundaries of the city were drawn too tightly in 1989. Politically that was pru*dent because it avoided tread*ing on the toes of the regional authorities. But economically it made little sense. Mr Picqué talks hopefully of sharing the government – and the fiscal revenues – of the Brussels hinterland, but for the time being he literally cannot afford to alienate Brussels' 1m or so inhabitants.

The wealthy commuters who work in the capital and live beyond the city limits pay their taxes to Flanders and Wallonia but spend their *weekdays using services* bought by Mr Picqué's government. At the same time, there are fears that the inner city will be abandoned to offices or to the European institutions, *and to poorer inhabitants,* including a large number of immigrants often resentful of what they see as harassment by the authorities.

For practical as well as ide*alistic reasons, then,* Mr Picqué – who is still mayor of one of the 19 communes – does not want Brussels to go the way of other international centres. In an attempt to prevent the village atmosphere of some parts of Brussels being replaced with administrative sterility, the government has tried to encourage joint developments with the private sector. More controversially, it has frozen or cut the number of city-cen-

Charles Picqué: determined to stick to his principles

tre parking spaces and imposed strict rules on granting planning permission for new offices.

Partly because of this draconian policy and partly thanks to the European Community institutions' voracious appetite for space, Brussels already has one of the lowest office vacancy rates in Europe. Developers – many itching to acquire and convert older buildings – believe, or hope, that Mr Picqué's ideas are doomed to failure. In five or 10 years he or his successors will have to relax their restrictions, they say, because Brussels will be starved of investment.

Recanting is not an option contemplated by the current chief minister, who believes it could take 10 or 20 years to set the city to rights. During that time, Mr Picqué is aware that Brussels must avoid alienating the business world and the European Community institutions, but he is determined to stick to his principles: "I don't think you can always dream about the ideal city," he says, "but you ought not to give in either."

Andrew Hill

☐ THE ECONOMY

Starting from a high base

BELGIUM should be among the very best performing economies in Europe. Within a few weeks, when it presents its convergence programme to meet the tight financial criteria for European economic and *monetary union (Emu), it is* expected to give an earnest undertaking that it has every intention of becoming just that.

It starts from a high base, *but weighed down by public* indebtedness which is more than twice the average of its EC partners.

To take but one startling illustration, a recent study by *the Cologne Institut der Deut*schen Wirtschaft shows that Belgian productivity is on average 20 per cent better than that of Germany, the EC's leading industrial power. Yet Belgian per capita income is 13 per cent below German average living standards.

The two main explanations are that the government payroll has swelled to include about a quarter of the workforce, while more and more Belgians are retiring early – subsidised, in effect, by the exchequer.

The number of public employees has grown about two fifths since 1970, to nearly 900,000, while private sector employment has contracted. Yet civil servants' earnings have only risen 40 per cent in that time, or less than half the rate of remuneration in the private sector.

A study by the Organisation for Economic Co-operation and Development (OECD) of workforce participation rates for 1987, *shows that in Belgium* only 54 per cent of males, and 15 per cent of females between the ages of 55 and 59 were in work, against respective averages of 76 and 38 per cent in *Germany, 81 and 54 per cent in* the UK, and 74 and 37 per cent among the main OECD economies. The state's generous facilitation of early retirement helps fuel both the budget defi*cit and the debt.*

Belgium's public debt is about $200bn, or 130 per cent of its gross domestic product. Interest payments on this debt eat up nearly 11 per cent of GDP each year, *leaving about* double this to meet the public sector payroll, but only one tenth of this for public investment – about a third of the EC average.

Just about everything else in Belgium's economy is in good working order or better. Growth averaged about 4 per cent in 1987-90. This fell to 1.5 per cent last year, mainly because Germany – which provides the Belgian economy with a large part of its locomotion – started running out of its post-unification steam. A slight pick-up in demand and investment this year points towards gradual recovery, conservatively estimated by the central bank at 1.6 per cent this year and 2.3 per cent next.

Inflation is creeping below 3 per cent (2.6 per cent in the first five months this year). Wage increases, averaging 4.8 per cent so far this year, are below German settlement lev*els. The current account,* strongly negative in 1975-85, has been in surplus ever since and is now averaging about 2 per cent of GDP, and rising.

This surplus reinforces the cornerstone of Belgium's economy, the hard franc policy it introduced in May 1990, along with a reduction of the withholding tax on income from financial assets from 25 yo 10 per cent.

For two years, the central bank has held the franc to a narrow fluctuation band of half a percentage point either side of the D-Mark. This is a far tighter discipline than the 2.25 per cent band allowed the Belgian currency within the exchange range mechanism of the EMS. In fact, the franc in the past 18 months has been no further than 0.06 per cent out of alignment with the EMS anchor, according to the central bank.

As a result, the narrowing of *short-term interest rate differ*entials with Germany has been almost total, from a 5.1 per cent gap in 1980 and a 2 per cent premium before the hard franc policy was adopted. *Indeed, Belgian short-term* rates have been dipping 0.2 per cent below German rates recently.

The hope is that the government will swiftly follow presentation of its convergence plan with stringent budgetary measures to implement it

The premium on Belgian long-term rates has also narrowed in the past year, from 1 per cent to just over 0.6 per cent. The difference reflects the main area of vulnerability: Belgium's public finances.

The annual budget deficit came down from 13 per cent in 1981 to 5.6 per cent in 1990. This implied cuts in spending – exclusive of interest payments on the stock of debt – of 10 percentage points of GDP. But last year there was slippage, on both the deficit (to 6.3 per cent of GDP) and debt stock, and only this year will the public sector shortfall return to 1990 levels.

Belgium's currency and interest rates easily meet the criteria for Emu laid down in the Maastricht treaty (which *Belgium, along with its part*ners, assumes will come into effect next year despite rejection by Denmark). But it still has a lot of work to do to "converge" its public finances towards *targets of 3 per cent* for the deficit and a ratio of debt to GDP of 60 per cent, by the end of 1996, the first possible date for the third stage of Emu and the creation of a single currency.

Yet Mr Alfons Verplaetse, cautious governor of Belgium's central bank, is certain his country will enter Emu in the first wave: "I don't doubt it for one second," he says.

He argues that last year's deficit – primarily the result of higher unemployment and pension payments – was quickly brought under control by the new government of Mr Jean-Luc Dehaene.

Mr Dehaene took over in March after more than 100 days of hiatus following last November's inconclusive general election. In April, he introduced a corrective fiscal package of savings and extra revenue which, Mr Verplaetse *says, prevented the deficit* reaching 7 per cent this year. Without any further measures, he adds, this will reduce the deficit to 5.5 per cent next year, within hailing distance of the *current EC* average.

However, the hope is that the government will swiftly follow presentation of its convergence plan with stringent budgetary measures to implement it, possibly in August.

In theory, there would then be four years to cut back to 3 per cent, a target which should be achievable. This is especially true given Belgian enthusiasm for Emu and European political union.

"Maastricht has been good for Belgium; it has been useful as an alibi," says Mr Peter Praet, chief economist at Generale de Banque. Most officials appear to believe that if the deficit is cut, and the debt stock is clearly coming down, then Belgium will not be held *to the 60 per cent debt-to-GDP* target stipulated by Maastricht.

But much depends on whether Mr Dehaene can keep macroeconomic policy separate from the mired issue of constitutional reform, upon which the future of his shaky coalition depends. A consensus on convergence is thus urgent.

"No matter what happens *with the government,"* says Mr Verplaetse, "once you have in place the mechanisms of Maastricht nothing untoward will happen."

When Belgium was without *a government* for more *than* three months, its squabbling politicians must have been chagrined to learn that the franc strengthened and interest rates fell.

But the rigorous fiscal effort required by Emu will need political will and persistence. Furthermore, in the 1987-90 years of high growth the authorities were able to do little more than stabilise public finances. The size of Belgium's debt overhang makes it potentially dangerous in a downturn, especially if Emu provokes a budget squeeze across Europe.

Belgium has potential shock-absorbers, however. Its rate of savings is unusually high and could be drawn down if the *government creates* sufficient confidence in the rigour of its convergence plan. Belgium's conservative companies built up huge cash surpluses with each leap in profitability during the 1980s. While much was reinvested, a great deal was kept as a buffer rather than distributed in dividends or spent on acquisitions.

This means, Mr Praet *believes, they can face with* equanimity slower growth, high interest rates and greater fiscal pressure, through the closing of tax loopholes rather than higher tax rates.

"The major *difficulty* is social consensus in the public sector," says Mr Praet. Cutting back on the public payroll will not be easy in a time of fast-spreading disenchantment with the traditional parties.

One possibility being canvassed is greater devolution of public spending so that the Flemish and Walloon language communities, for example, would be directly responsible for passing on the cost of, say, more teachers that they assume their electors want. This superficially attractive idea would risk making Belgium more fissiparous than it already is.

David Gardner

BELGIUM 3

Dick Leonard examines moves towards devolution

Transition proves difficult

FOR its first 150 years – between 1830 and 1980 – Belgium was perhaps the most over-centralised state in Europe. It was not considered a great success, at least during the latter part of this period. Now, Belgium is well on the way to becoming the most decentralised, although it is not there yet.

The transition is proving difficult and it is far from certain that the process will be completed within the next couple of years, as the present government intends.

The centralised system worked well enough in the 19th century, but only on the basis of a less-than-democratic constitution and the understanding that power would be monopolised by the French-speaking minority.

The coming of universal suffrage for men in 1918 – women got the vote only 30 years later – meant that it was only a matter of time before the Dutch-speakers, who now make up 57 per cent of the population, would gain the upper hand.

Thereafter, a large part of Belgian politics, and an even greater share of the emotional commitment, was devoted to pursuing the interests of the two language groups, with an astonishing array of checks and balances being built into the Belgian constitution.

It was to little avail. The Dutch-speaking majority was too conscious of past slights to accept with good grace that, with growing prosperity in Flanders, they were now the top dogs both economically and politically – the last 11 governments have all been headed by Dutch-speakers – and could afford to be magnanimous. The French-speakers were only too aware of their minority status, and tended to be over-defensive.

It was left to Mr Martens to introduce a more limited scheme of devolution when he became prime minister

Mr Wilfried Martens, who ceased to be prime minster after 12 years last March, was the first senior Belgian politician to conclude that if the two language groups could not happily collaborate to run a centralised state, each of them should be left to run their own affairs, leaving only a minimal competence to the national government.

He was the principal author of the Egmont Pact of 1977, which foresaw the creation of three self-governing regions of Flanders, Wallonia and Brussels. Unfortunately, the pact was never implemented and it was left to Mr Martens to introduce a more limited scheme of devolution when he became prime minister in 1979.

This scheme, which came into effect in 1980, established only two regions – Flanders and Wallonia, leaving Brussels under central control. It also established three language communities, including one for the tiny German-speaking minority in eastern Belgium.

The regions were given a long list of economic and social responsibilities, including planning, the environment, housing, water policy, the economy, energy, employment and supervision of local government.

The language communities were endowed with a narrower range of responsibilities, comprising cultural affairs – language matters, museums, libraries, radio and television, youth policy, sport, tourism, adult education and scientific research – and personal health and welfare services.

Each region and community was granted limited taxation powers and an indirectly-elected assembly. The Dutch-speaking community and the Flemish region voted immediately to combine, so that one Flemish assembly and one executive council was responsible for the powers granted to both authorities.

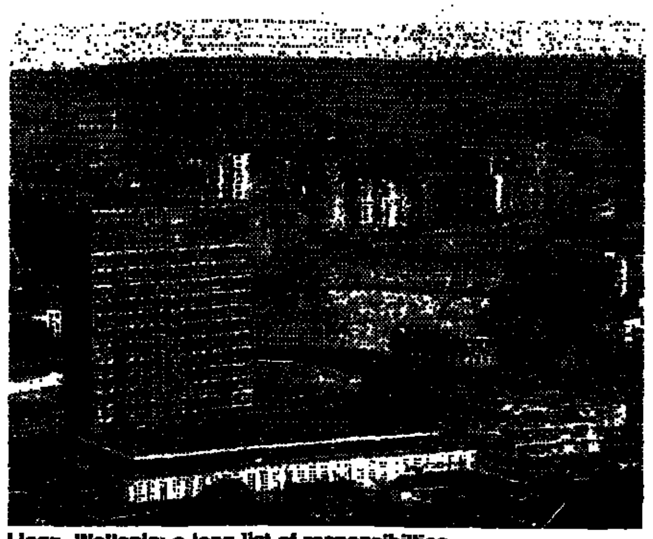
No such amalgamation occurred on the French-speaking side, so that both Wallonia and the French-speaking community retained their separate identities.

This experiment in partial devolution led to a marked lessening in tension between the two main language groups but failed to remove all the sources of conflict between them.

The 1987 poll was brought about by a quarrel over the mayoralty of a tiny mixed-language commune on the Dutch border near Maastricht, known as the Fourons (Voeren in Dutch). This was the third time in 20 years that this commune, whose population is less than 4,500, had brought down a Belgian government and the conviction grew that it was time to reach a final settlement of all constitutional issues affected by the language issue.

A three-stage programme of reform was drawn up by Mr Jean-luc Dehaene in 1988, as the basis for forming a new government and it was accepted by the leaders of all the five parties which joined the new left-centre coalition led by Mr Martens.

The first two stages were enacted with surprising ease, securing the necessary two-thirds parliamentary majority.


Liege, Wallonia: a long list of responsibilies

These respectively dealt with power-sharing in mixed-language communes, and with increasing the powers of the regional and community councils,including the establishment of a third region for Brussels, with its own directly-elected assembly. Education, previously under national control, was transfered to the language communities.

The third stage envisaged the replacement of the Senate with a new upper chamber representing the regions, and the direct election of the Flemish assembly and of those for Wallonia and the French-speaking community. Although the overwhelming majority of parliamentarians supported these changes in principle, it proved impossible to get agreement on the details.

This is still the position under the new Dehaene government, which lacks a two-thirds majority although it will need this level of support to get the changes through.

The biggest difficulty is over whether French speakers living in Flanders (of whom there are a large number) should have the right to vote in elections for the French-speaking community. Absolutely, say the Walloons. Absolutely not, say the Flemings.

Mr Dehaene has set up a standing conference consisting of himself and four members from each of 10 parties represented in the national parliament to seek an agreed approach. It is getting nowhere fast – the opposition parties (in particular, the right-wing Liberals) are setting unacceptable conditions for support.

The betting in Brussels is that Mr Dehaene will be unable to break the deadlock and that his government will fall before the autumn. Whether or not a new government, perhaps expanded to include the Liberals to ensure a two-thirds majority, will be any more successful, is far from clear.

What is certain is that there is no going back. Either Belgium will complete its transition to a fully federal state or it will be stuck indefinitely at its present, rather more than half-way, house. The days of a unified national structure are dead and gone.

□ THE CHEMICAL INDUSTRY

A year of stagnation

THIS YEAR'S results reporting season was not a happy one for Belgium's chemical companies. The Gulf war and the recession in the US and the UK, a surge in cheap imports from eastern Europe and the re-emergence of overcapacity in basic chemicals production all took their toll in 1991.

It was the first real year of stagnation in the chemicals sector after a long period of growth.

Solvay SA, the kingdom's second-biggest company and Belgium's largest chemicals company, saw its profits slide 22 per cent. The company's plastics business – especially its cyclical products such as polyvinyl chloride, used in a plethora of industrial applications – fared worse and was largely blamed for the poor results.

Tessenderlo Chemie, a producer of mainly basic chemicals and therefore the most dependent on cyclical products of the large Belgian companies, witnessed a 32 per cent drop in net profits.

Nevertheless, despite the gloomy picture painted by annual reports, the chemicals industry in Belgium as a whole managed to scrape a 1.7 per cent turnover increase at BFr952bn in 1991, the Belgian Federation of Chemical Industries (FCI) reported in May.

This compares with a drop in turnover in 1991 of 5.9 per cent from the previous year in the UK chemicals industry and a 2.1 per cent slide in Germany, according to the Brussels-based European Chemical Industry Council.

In addition, a massive 50 per cent jump in investment in the industry last year helped the chemicals sector in Belgium register an increase in employment of 2.8 per cent between 1990 and 1991, according to industry figures.

Belgian chemicals have been cushioned to some extent from recession by their wide product spread. "Global results were better than elsewhere because the industry in Belgium is very diversified," said Mr Paul Launois, chief economist with the FCI. Only half of the sector's business in Belgium is in basic or bulk chemicals; the rest is divided between parachemicals, including pharmaceuticals and chemical transformation of rubber and plastics."

The industry also managed to fight off some of the worst effects of the slump by posting good results for 1991 in the pharmaceuticals sector, one of the main growth areas. The success of the anti-allergic drug Zyrtec, now registered in 70 countries, helped UCB, Belgium's second largest chemicals company, to offset a 22.1 per cent profit slump in its chemicals division, so that the company posted an overall 1 per cent profit.

Analysts expect the company's income to continue to rise a minimum of 10 per cent a year, and a further boost is expected from the US Food and Drugs Administration approval of Zyrtec, expected in the autumn. Sales growth is also expected for UCB's other market leader, the memory aid Nootropil.

Solvay expects its animal and health division to expand rapidly over the next few years. They already account for 14.3 per cent of Solvay sales. The company plans a high level of research and development investment, currently standing at about $200m, small acquisitions to boost its portfolio and a string of marketing alliances such as the one reached with Upjohn last year. Under the agreement, the US company will market Solvay's anti-depressant Fluvoxamine in Europe. Although Fluvoxamine had been on the market for several years it was struggling to reach its sales targets.

Solvay has also plunged into a radical restructuring and acquisitions programme in order to strengthen its position on the world market

Because of its strategic position in Europe's industrial belt, with good sea outlets, Belgium has long been considered by US and German companies as a good base from which to serve the rest of Europe. The German firms Agfa-Gevaert, Bayer and BASF and the US's Dow Chemical and Monsanto all have subsidiaries in Belgium, the majority established since the 60s.

In turn, this has forced Belgian companies who saw their share in the domestic market shrink as a result, to consolidate and expand their activities abroad. BASF-Antwerpen, the wholly-owned Belgian subsidiary of the German chemicals giant, put up a quarter of the BFr106bn ploughed into the industry last year, making Belgium by far the favourite place for BASF's foreign investment. A BFr6.5bn ammonia plant was opened by the company on its 600-hectare Antwerp site in 1991. Work also began on a BFr27bn "steam cracker" which produces ethylene – vital for numerous production processes – now due to become operative at the end of 1993 and only the second to be built in Belgium.

BASF-Antwerpen is also due to put into operation this year a new ethyl benzine and styrene plant and work has begun on a new ethylene oxide and ethylene glycol plant.

Solvay, already the world leader in its primary business of soda ash, a chemical used to make glass, hydrogen peroxide and high-density polyethylene, has also plunged into a radical restructuring and acquisitions programme in order to strengthen its position on the world market.

In March this year, the 139-year-old company dissolved a 21-year-old joint venture with Laporte PLC of the UK, giving Solvay full ownership of the Interox worldwide business in the hydrogen peroxide and persalts businesses.

A month later the company announced it was buying natural soda ash mines in the US from Tenneco Inc. Analysts said the $500m paid for the mines was steep, and the deal led to a downgrade in the company's credit ratings. But Solvay remained undeterred.

"We have effectively bought reserves in trona (a mineral used to make soda ash) for 100 years", said Baron Daniel Janssen, the company's chairman, when he announced the purchase. He also said it would help strengthen the position of the company, which carries out 75 per cent of its business overseas, in the growing North American soda ash market as well as giving Solvay a good base from which to launch an export drive to Latin America and Asia.

Continuing its push overseas, Solvay also programmed $125m for investment in a soda ash and hydrogen plant in Bernberg, eastern Germany, returned to Solvay last year by the Treuhandenstalt, more than 50 years after it was seized by the Nazis. The plant is set to become the company's base in eastern Europe.

Chemical industry experts in Belgium are predicting an improvement in business around October. But the threat of more cheap imports into Belgium from east Europe and Saudi Arabia, the continuing existence of the overcapacity phenomena, as well as the slowdown in the German economy – Belgium exports three quarters of its products, a large quantity of which goes to Germany – meant that first quarter 1992 results continued the downward trend.

But the restructuring and investments made by some of Belgium's key players in the sector last year should put the industry in a good position for when the situation improves. "It takes a while for the benefits to come upstream with investment in the chemical industry but we expect it to do so at about the same time as an upturn in the world economy", said Mr Launois.

Hilary Clarke

☐ ANTWERP

City of Culture for 1993

IT IS a paradox of European culture that the stuffiest cities play host to the most radical artists: Vienna, Salzburg and Edinburgh, all famously bourgeois, woo the *enfants terribles* of the European avant-garde for festivals each year.

Antwerp, which has just launched its programme as European City of Culture for 1993, slots naturally into this set. A deeply conservative, Roman Catholic, Flemish city, where the right-wing Vlaamse Blok scored well at last November's election, its long-standing role as a magnet for innovative artists makes it Belgium's obvious choice as cultural capital.

Yet Antwerp joins Glasgow as the only two in the series of Europe's cultural capitals – Florence, Paris, Berlin, etc. – not known as an international arts centre.

Glasgow in 1990 responded with a new, cleaned-up image and a programme including sports and popular events. Antwerp – on a budget of BF900m, less than a third of Glasgow's – has a much tighter, arts-orientated schedule which builds on the tradition of artistic excellence which already makes it a powerhouse of Flemish culture. Like Glasgow, it has more to prove and more to gain from its year in the arts limelight, than the other cities.

Visit Antwerp, and the paradox of the radical and the traditional is everywhere. More than 300 Madonnas are sculpted into niches on the outside of the stepped, gabled houses of the 17th century merchants who made Antwerp rich. Now the lugubrious Virgins brood warily over the pazzazz of developments such as the old docks, about to become Antwerp's Covent Garden-style piazza and home to Eurosail '93, a mooring of tall ships from round the world.

At the new Dock's Cafe, a former warehouse on the banks of the River Scheldt, city slickers queue nightly for cocktails. Seconds away, the remnant of the old port life, a street of red-lit windows where negro prostitutes advertise their wares, struggles for survival.

As a young man, Simenon, Belgium's most famous writer, once gave his most precious possession, a silver watch, for 20 minutes with one of them.

The growth of high-tech industry in Flanders, and especially the expansion of Antwerp's and Rotterdam's docks into western Europe's two leading ports – both slick, stream-lined post-modern affairs – has created a milieu spawning experimental, up-to-the-minute Flemish art.

Ask any Belgian to name national artists of international standing, and the list will be Flemish: choreographers Wim Wanderkeybus or Anna Theresa de Keersmaeker and the "Rosas" group with the kinetic dazzle and compressed energy of their violent new dance forms, both recent guests in England; directors Jan Fabre or Jan Lauwers with multi-tongued music-drama like "Sweet Temptations" or "Invictos", an Andalusian dance of death based on Hemingway which plays in Dutch, Spanish, English or German according to its audience. All these have criss-crossed Europe this year, but at home too, along with trendy visitors such as Vienna's Claus Peymann, Tadeusz Kantor's Polish troupe and the American musical "Josephine" about the life of Josephine Baker, which began its European tour in Rotterdam and Antwerp, they were the biggest hits of this season. They illustrate a distinction between Flemish and Walloon cultural self-images: where Brussels, the outstanding Monnaie Opera excepted, languishes as a Francophone Cinderella too close to the rigorous chic of Paris to thrive as an independent artistic metropolis, Antwerp joins Rotterdam and Amsterdam in a snazzy nexus of confidant Flemish-Dutch cities which see themselves as a heartland of North European culture.

The Cathedral of Our Lady in Antwerp: largest Gothic church

It is the European connection that Eric Antonius, director of the festival Antwerp 93, is stressing in his strategy for the city's role as the first cultural capital in a Europe without frontiers.

"It is typical of Europeans", says Mr Antonius, "that they are continually taking a close, critical look at themselves and at the world in which they are trying to survive. They ask questions, hesitate, often live at variance with themselves and dare to brush aside their achievements so as to start all over again".

His European theatre programme, "The Questioner" (De Vragestellar) will reopen the *Bourla Theatre, the monumental* late-classical building on the Komedieplaats which has stood empty since it was declared a fire hazard in 1980.

Oedipus, Hamlet, Orfeo, Don Juan, Faust and other self-pondering archetypes of European drama will tread its boards in 1993 along with those giants of modern angst, Peter Handke ("The Question Game"), Bernard-Marie Koltes, with a roll-call of down-and-out and mass-murderer heroes, and Thomas Bernhard, who distils existential agony into drama and even comedy like no one else.

It's an exciting programme but there's an unmistakeable whiff of the Teutonic heavyweight about it; had Brussels hosted such a festival, French legerete would as distinctly have been the name of the game. But Antwerp 93 undoubtedly has a finger on the pulse of contemporary theatre.

In the other performing arts, the programmes are also serious and innovative. The modish arts complex De Singel will collaborate with the Flemish Opera, for example, on the first Festival of Contemporary Opera, directed by Jan Fabre and including several Flemish composers or theatre-makers.

"I am an international artist but first I am a Flemish artist", says Jan Lauwers, who will direct Walter Hus's opera "Orfeo". Antwerp 93 will be a showcase for what there is in Flemish culture beyond Rubens, Brueghel, waffles and lace. Anyone who has not visited the city for some years will be surprised. The messy frontage of the turn-of-the-century Centraal Station, one of the great railway cathedrals of European station architecture, will be restored to its former lustre for 1993. The wall which has for years divided Antwerp Cathedral will go, making the Cathedral of Our Lady again the largest Gothic church in the Netherlands. And the old *waterfront will be a jazzed-up* catwalk of restaurants for style-spotters.

In industrial Antwerp early this century, the saying used to go: "Antwerp owes the Scheldt to God and the rest to the Scheldt". The port is still the city's life-blood, but the old docks should attract a fleet of Euro-yachts and a crowd of Euro-visitors, and will be the nerve-centre of the new tourist Antwerp too.

Jackie Wullschläger

☐ OSTEND AND ZEEBRUGGE

Channel tunnel challenge looms large

SINCE the 12th century, Bruges has faced up to almost every challenge the sea and seafarers can throw at a port.

Its harbour silted up in the 15th century and it lost its pre-eminence as a maritime, commercial and financial centre to Antwerp and Amsterdam.

Then the new port of Zeebrugge – inaugurated in 1907 – suffered a blow to its trade in the late 1970s when Texaco closed down its Ghent oil refinery, and a blow to its image a few years later when the Herald of Free Enterprise ferry tragically capsized just outside the harbour.

Having survived such shocks, it is hardly surprising that Mr Walter Falleyn of the *Bruges-Zeebrugge Port* Authority (MBZ) is philosophical about the imminent challenge of the Channel tunnel:

"If they play fair – that is, if Eurotunnel isn't subsidised in any way – we think they won't be able to compete with the tariffs that the ferries can offer.

"What ics more, we believe passengers will prefer the ships to the tunnel."

Zeebrugge and Ostend, its Channel neighbour, are nonetheless bracing themselves for the competition. Zeebrugge has installed two new ferry berths to cope with jumbo-ferries and is in the process of constructing a new distribution park to help enhance its reputation as a freight terminal.

Ostend, meanwhile, has begun its own more modest refurbishment and improvement programme, investing in a new jumbo-ferry terminal, a new lock, quay walls and a larger turning space for freight vessels.

"It's a new start for the port of Ostend because we haven't had much investment before now," says Captain Rafael Ghys who is the master in charge of the city harbour.

Competition between the two ports is a reality but it is not cut-throat. "We try to keep out of each others' waters," explains Mr Falleyn. In fact, Ostend and Zeebrugge are competing in subtly different markets, a point underlined by P&O's recent decision to restrict its Dover-Zeebrugge service to freight.

The P&O flag still flies over the Felixstowe-Zeebrugge passenger-freight service, and on the Ostend-Dover passenger-freight route operated by RMT, the Belgian state shipping line.

But according to Mr Falleyn, Zeebrugge is not greatly worried about the loss of some passenger traffic.

Indeed, the port seems happy with the other niche passenger market it has built up over 20 years with North Sea Ferries – which sails overnight to and from Hull in the north-east of England.

It is freight, however, which remains Zeebrugge's great strength and income from cargo helps the regionally-owned port authority pay for continuing improvements.

In 1991, the port loaded and unloaded some 30.9m tonnes of cargo, 233,111 containers, 192,635 new cars and 748,314 lorries. Zeebrugge's growth slowed slightly last year, but on average cargo traffic has been expanding at 14 per cent annually for the past eight years.

More than half that cargo is European, but Zeebrugge is also trying to push itself as an attractive destination for shipping companies further east.

An MBZ team recently visited South Korea in an attempt to woo container and car manufacturers. "We think there are a lot of things coming up in the east – think of China, for example – and we don't want to miss the boat," says Mr Falleyn.

Ostend, with a higher proportion of passenger business, will have more riding on competition with the Channel tunnel, come 1994. Its main assets will be the ferries and jetfoils of RMT-P&O and Sally Line, which operates out of Ramsgate in Kent.

The port's freight traffic is more modest than Zeebrugge's and has been declining since the early 1980s.

The city and state harbours handled some 5.89m tonnes of cargo last year, compared with 8.83m tonnes in 1981.

On the other hand, some 1.88m passengers passed through the port, against Zeebrugge's 1.67m.

Ostend's future as a passenger port depends on maintaining its position in the north European rail network

But Mr Eric De Praetere, RMT's general manager, says the statistics do not paint an entirely accurate picture because RMT and P&O share the income from cross-Channel freight traffic whether it goes to Ostend or Zeebrugge.

"We are really aiming for a mixture of traffic," he says.

Indeed, most of the increased capacity on the new jumbo-ferry introduced by RMT on the Dover-Ostend route last month is earmarked for freight trucks, although it will also carry 1,200 passengers in much greater luxury than they are used to on Channel crossings.

Ostend's future as a passenger port depends to a large extent on maintaining its position in the north European rail network, with convenient connections through to Brussels, Cologne and beyond, which accounts for more than a quarter of its passenger traffic.

That position is likely to be shaken once a dedicated express service opens between Brussels and the tunnel.

"I've already had a lot of discussions with the continental railway administrations and I don't believe they intend to have the TGV as the only option," says Mr De Praetere.

He believes, like his Zeebrugge counterparts, that the ferries will compete on price if nothing else – provided P&O can also convince British Rail that it should maintain its existing rail services to the Dover ferries.

Andrew Hill

☐ BANKING AND FINANCE COMMISSION

Wagons-Lits is a test case

BELGIAN corporate life has never really rediscovered the excitement of 1988, when Carlo De Benedetti launched his audacious but unsuccessful hostile bid for Société Générale de Belgique, the country's largest holding company.

That may be a disappointment to Brussels brokers, but it is a cause of some satisfaction to Jean-Louis Duplat, chairman of Belgium's bid watchdog, the banking and finance commission.

Mr Duplat – responsible for vetting takeover documents and listing particulars under 1989 takeover legislation – would like to see the sluggish *Brussels* bourse livened up, but only by legitimate and fair means.

The 1989 legislation has made it impossible for wily predators such as De Benedetti to creep up on their targets. Stakes of 5 per cent or more have to be declared – Mr De Benedetti built up more than 15 per cent before revealing his plans – and all shareholders are supposed to be informed equally of a large investor's intentions. "People now know what they can do and what they must not do," says Mr Duplat.

Unfortunately, not everybody agrees with him. The stake declaration demands seem to be working well, with many large companies choosing to enforce tougher disclosure requirements at the 3 per cent level. But there has been much criticism of the banking commission over its interpretation of the law on the launching of a full takeover bid.

Unlike the British takeover code, or the draft EC takeover directive, Belgium has no set threshold above which a bid must be launched. Instead, a bid is triggered if a premium is paid for control of a company. The problem lies in defining "control".

Attention has focused on Wagons-Lits, the Franco-Belgian tourism group which has just been taken over by Accor, the French hotels company, in collaboration with Société Générale de Belgique. Minority shareholders claim the Accor *offer document reveals that* control of Wagons-Lits actually changed hands when La Generale and Accor bought a joint stake in the group at a much higher price in 1990. They say the full bid should have been launched at the higher price and have taken Accor to court to argue the case. A ruling is expected this month and could have significant implications for minority shareholders in Belgium and beyond.

The banking commission is at the centre of the row, *mainly because Accor and La* Generale have defended themselves by pointing out that the commission approved both the original purchase and their bid.

Mr Duplat will not comment, except to say that joint control is not the same as having a "common attitude" to the management of a company and to point out that the commission's action has been fully explained – as required under the law – in its annual report.

Whichever way the case goes, market analysts question whether the commission is equipped to carry out the job it is supposed to do.

Mr Duplat argues that the increase in "quality" staff – from 150 four years ago to about 230 now – is sufficient to cope with the added burden of supervision. "We want to be able to intervene efficiently at the right moment in serious cases, but not to get mixed up with bureaucracy, which helps nobody," he says.

The commission has also been criticised for not having any real weapons at its disposal. In really serious cases, where the commission's published "opinion" is ignored, the watchdog can only resort to the courts.

Carlo De Benedetti: wily predator with hostile bid

Jean-Louis Duplat: insists on legitimate and fair means

Mr Duplat, on the other hand, does not want the banking commission to become a strong-armed Belgian Securities and Exchange Commission: "I don't think it would be useful to transform ourselves into a super-gendarmerie, independent of the courts," he says.

Ironically, however, it will be the court's decision on the Wagons-Lits case which will decide how seriously the commission is taken by its clients in future.

Andrew Hill